

Annual Report **20**
22



Airdoc 鷹瞳

Beijing Airdoc Technology Co., Ltd.
北京鷹瞳科技發展股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock Code : 2251

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. ZHANG Dalei (張大磊)
(Chairman and chief executive officer)
Mr. GAO Fei (高斐) *(ceased on January 13, 2023)*
Dr. CHEN Yuzhong (陳羽中)
Mr. CHEN Hailong (陳海龍)
Ms. WANG Lin (王林) *(effective from March 30, 2023)*

Non-executive Directors

Mr. JIANG Bo (蔣波) *(ceased on May 19, 2022)*
Ms. WANG Mi (王謐) *(ceased on January 13, 2023)*
Mr. CHEN Xin (陳欣) *(effective from May 19, 2022)*
Ms. ZHU Tingyao (朱艇遙)
(effective from March 30, 2023)

Independent Non-executive Directors

Mr. NG Kong Ping Albert (吳港平)
Dr. WU Yangfeng (武陽豐)
Dr. HUANG Yanlin (黃彥林)

SUPERVISORS

Mr. WEI Yubo (魏宇博)
Ms. BAI Huihui (白惠惠)
Ms. ZHOU Wenjuan (周雯娟)
(ceased on March 17, 2022)
Dr. LUO Ting (羅婷) *(effective from May 19, 2022)*

AUDIT COMMITTEE

Mr. NG Kong Ping Albert (吳港平) *(Chairman)*
Dr. HUANG Yanlin (黃彥林)
Dr. WU Yangfeng (武陽豐)

REMUNERATION AND APPRAISAL COMMITTEE

Dr. HUANG Yanlin (黃彥林) *(Chairman)*
Mr. GAO Fei (高斐) *(ceased on January 13, 2023)*
Mr. NG Kong Ping Albert (吳港平)
Ms. WANG Lin (王林) *(effective from March 30, 2023)*

NOMINATION COMMITTEE

Mr. ZHANG Dalei (張大磊) *(Chairman)*
Dr. HUANG Yanlin (黃彥林)
Dr. WU Yangfeng (武陽豐)

STRATEGY COMMITTEE

Mr. ZHANG Dalei (張大磊) *(Chairman)*
Mr. NG Kong Ping Albert (吳港平)
Dr. WU Yangfeng (武陽豐)

AUTHORIZED REPRESENTATIVES

Mr. ZHANG Dalei (張大磊)
Ms. SO Lai Shan (蘇麗珊)

JOINT COMPANY SECRETARIES

Ms. YANG Wenting (楊文婷)
Ms. SO Lai Shan (蘇麗珊)
(ACG (CS, CGP) HKACG (CS, CGP))

HEAD OFFICE, REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Room 21, 4th Floor, Building 2, A2 Yard
West Third Ring North Road
Haidian District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1901, 19/F, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

H SHARE REGISTRAR

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

Corporate Information

HONG KONG LEGAL ADVISER

Kirkland & Ellis
26/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

STOCK CODE

2251

COMPANY WEBSITE

www.airdoc.com

PRC LEGAL ADVISER

Zhong Lun Law Firm
22-31/F, South Tower of CP Center
20 Jin He East Avenue
Chaoyang District
Beijing
PRC

AUDITOR

KPMG
*Public Interest Entity Auditor registered in accordance
with the Accounting and Financial Reporting
Council Ordinance*
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

COMPLIANCE ADVISOR

Somerley Capital Limited
20/F, China Building
29 Queen's Road Central
Hong Kong

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last four* financial years, as extracted from the audited financial information and financial statements is set out below:

	For the year ended December 31,			
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	113,657	115,181	47,672	30,415
Cost of sales	(57,805)	(44,940)	(18,585)	(14,308)
Gross profit	55,852	70,241	29,087	16,107
Loss from operations	(182,301)	(142,229)	(51,913)	(46,141)
Loss before taxation	(182,740)	(142,527)	(79,251)	(87,132)
Loss for the year	(182,740)	(142,527)	(79,626)	(87,139)
Loss per share				
Basic and diluted (RMB)	(1.75)	(1.76)	(1.36)	(1.66)

	As of December 31,			
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Financial Position				
Non-current assets	64,137	48,566	26,854	6,230
Current assets	1,675,818	1,845,611	408,899	233,139
Non-current liabilities	3,928	3,420	2,405	2,242
Current liabilities	64,665	70,771	24,898	396,471
Net assets/(liabilities)	1,671,362	1,819,986	408,450	(159,344)
Total equity/(deficit) attributable to equity shareholders of the Company	1,666,125	1,819,986	408,212	(159,367)
Non-controlling interests	5,237	—	238	23

* The H Shares of the Company were listed on the Main Board of the Stock Exchange under Chapter 18A of the Listing Rules on November 5, 2021.

Chairman's Statement

Dear Shareholders,

It is with great pleasure that we present our annual report for the year ended December 31, 2022. On behalf of the Board and Airdoc, we express our sincere gratitude for your continued support and trust over the years.

Our products are designed for use in a wide range of healthcare environments, including medical institutions, various consumer healthcare environments, and eye health management settings. We remain committed to expanding our service network and enhancing our testing capacity to cover a growing number of service sites. The number of hospitals utilizing our products increased from 41 in 2021 to 129 in 2022, while the number of primary healthcare institutions utilizing our products increased from 91 in 2021 to 288 in 2022. Furthermore, we implemented our AI-based solutions in over 180 health checkup centers and over 1200 optometry centers across China.

As part of our response to the implementation of inclusive healthcare (普惠醫療), we have played an active role in facilitating the informatization of medical and health services in counties and accelerating the application of AI-based auxiliary diagnosis in rural medical and health institutions to supplement primary care and address the issue of inadequate resources in underserved regions.

In 2022, our solutions detected approximately 4.3 million cases (“Uses”), representing a year-over-year decrease of 12% from 2021, primarily due to the limited on-site activities in the relevant business settings. However, we remain optimistic that our Uses will recover in 2023. Among the Uses in 2022, we identified over 35,000 cases flagged with severe or urgent health problems, and we are proud to have helped these individuals become aware of the dire health risks they faced, allowing them to receive timely treatment and medical care. This encourages us to continue our dedication to providing inclusive healthcare.

The past year also witnessed our achievement of milestones in software and hardware that solidify our professionalism.

SaMDs. Our Airdoc-AIFUNDUS (1.0) was the first AI-empowered retina-based auxiliary diagnosis product that obtained the Class III medical device certificate from the NMPA for assisting physicians in medical institutions with detecting and diagnosing diabetic retinopathy. Moreover, our Airdoc-AIFUNDUS (1.0) is widely compatible with most fundus cameras on the market, which enables us to be well-positioned to capture the significant market opportunity. With diabetic retinopathy being the most common diabetes complication, we have marketed our Airdoc-AIFUNDUS (1.0) to the department of endocrinology, ophthalmology and physical examination in hospitals.

Our Airdoc-AIFUNDUS (2.0) is an upgraded version of our Airdoc-AIFUNDUS (1.0), which is designed with the indications expanded from the auxiliary diagnosis of diabetic retinopathy covered by its previous version to the auxiliary diagnosis of hypertensive retinopathy, retinal vein occlusion and AMD. We completed the clinical trial of Airdoc-AIFUNDUS (2.0) in the third quarter of 2022 with outstanding results and applied to the NMPA for an updated Class III medical device certificate for the new indications in the fourth quarter of 2022. With the NMPA approval of our Airdoc-AIFUNDUS (2.0) in the future, it has the potential to become the first AI-based auxiliary diagnosis SaMD in China with multiple approved indications. After obtaining the registration approval of new indications, we plan to market our Airdoc-AIFUNDUS (2.0) to cardiovascular and neurology departments in hospitals and promote it to patients with high blood pressure or at high risk of retinal vein occlusion.

Health Risk Assessment Solutions. We are also developing our AI-empowered retina-based health risk assessment solutions in order to meet the need of health risk assessment and health monitoring. Targeting a wide range of business settings that act as entry points of daily health monitoring and eye health management, we customize our health risk assessment solutions to cater to their unique needs raised in different healthcare environments. With our health risk assessment solutions currently covering 55 types of lesions and diseases, we market them to various types of healthcare providers, which primarily include health checkup centers, insurance companies, optometry centers and pharmacies. We also plan to expand the coverage of diseases and lesions of our health risk assessment solutions to include hyperthyroidism, graves ophthalmopathy, retinal vein occlusion, dementia, Parkinson's disease, atrial fibrillation and arteriosclerosis, among others.

Chairman's Statement

Hardware. Our AI-FUNDUSCAMERA-D received the Class II medical device registration certificate from the Shanghai branch of the NMPA in July 2022. It is a fully automatic and fully self-service desktop fundus camera with comparable image quality but significantly lower costs than traditional high-end desktop fundus cameras. Its infrared imaging and low-light enhancement technologies facilitate the capture of high-quality images. We already began to commercialize our desktop version in various healthcare environments to meet the customer's needs for large-sized fundus cameras.

In 2022, we launched a myopia treatment device product, which irradiates the fundus with repeated low-intensity light at 650nm, increases the thickness of the choroid, and inhibits the excessive growth of the eye axis, thereby controlling the progression of myopia. The device is an effective choice for myopia control and prevention in children and youth. Also, the device is loaded with our self-developed AI algorithms for dynamic real-time tracking. Through our solution of Airdoc Eye Health, we address the needs of eye health evaluation as well as myopia control and prevention.

In addition, we published many papers together with renowned medical research institutions on various prestigious peer-reviewed research scientific journals throughout the year. In May 2022, we jointly published a research paper together with Beijing Tongren Hospital Eye Center (北京同仁醫院眼科中心) in The JAMA Network Open regarding the performance of retinal artificial intelligence diagnosis system (the "RAIDS") in detecting and screening 10 retinal diseases. The results showed that RAIDS achieved a sensitivity of 89.8% to detect any of the 10 retinal diseases and differentiated 10 retinal diseases with accuracies ranging from 95.3% to 99.9%. Compared with human retinal specialists, RAIDS showed a higher sensitivity for detecting retinal abnormality and greater efficiency for assessing retinal images. In December 2022, we jointly published a paper together with Dr. XIE Wuxiang (解武祥), a researcher at the Peking University Clinical Research Institute (北京大學臨床研究所), in the top international journal "Age and Ageing" (IF: 12.782, the journal ranked first in the field of geriatrics), which is the world's first study that combines AI technology and fundus image to identify people at high risk of dementia. We participated in the research and provided strong technical support and guarantee for the smooth development of the research.

The year of 2022 concluded on a strong footing with solid progress made on the commercialization in our three business pillars: Airdoc Medical (鷹瞳醫療), Airdoc Health (鷹瞳健康) and Airdoc Eye Health (鷹瞳眼健康). As an effective entry to detect, diagnose and monitor chronic diseases as well as assess eye health conditions, our AI-based SaMDs, health risk assessment solutions and hardware devices have been widely used in an increasingly expanded network of various consumer healthcare environments, including hospitals, health checkup centers, community clinics, insurance companies, optometry centers and pharmacies. In 2022, we continuously iterated our self-developed portable and desktop fundus camera to enhance sensitivity and specificity; we have built our own factory in Changsha, Hunan Province, allowing us to have independent and controllable production capacity; meanwhile, we launched a myopia treatment product to enrich our product portfolio to adapt to diversified commercial scenarios and to expand our integrated solution of software and hardware to cover myopia treatment.

Looking ahead, we have ushered in a new beginning of our journey to realize "more intelligence, better care". We will continue our R&D efforts to extend our technological leadership in the AI-based retinal imaging sector as well as enhance our product pipeline. We will continue accelerating our commercialization across all types of customers in different medical and consumer healthcare environments. As we are fully committed to our core values of inclusive healthcare, professionalism and long-term dedication, we are confident that we can achieve a fast and robust long-term growth while generating long-term value to our Shareholders.

Mr. ZHANG Dalei
Chairman and Chief Executive Officer

March 23, 2023

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

We are an AI-based medical device company with an advanced platform of AI-empowered retina-based deep learning algorithms. Founded in 2015, we are one of the first to provide AI-empowered retina-based early detection, diagnosis and health risk assessment solutions in China. With the feature of integrated software and hardware solutions, we provide our AI-based SaMDs, health risk assessment solutions and hardware devices to a wide range of healthcare environments, enabling us to commercialize and sell not only to clinical departments in hospitals, but also to other types of medical institutions, various consumer healthcare environments and eye health management settings. With an aim to efficiently penetrating our integrated AI-based software and hardware solutions into these healthcare environments, we developed a multi-faceted sales and marketing strategy by establishing three closely connected business units: Airdoc Medical (鹰瞳医疗), Airdoc Health (鹰瞳健康) and Airdoc Eye Health (鹰瞳眼健康). Leveraging retinal imaging, multimodal data analyses and AI deep learning algorithms, our solutions differ from the traditional early detection and diagnosis method by adopting a non-invasive, accurate, fast, effective and scalable detection and diagnosis of chronic diseases. Our Airdoc-AIFUNDUS (1.0), an AI-based SaMD approved for auxiliary diagnosis of diabetic retinopathy in August 2020, was the first of its kind that obtained the Class III medical device certificate from the NMPA. In 2022, we had detected over 4.3 million cases via our SaMDs and health risk assessment solutions.

Our Portfolio

To address the largely unmet medical needs of early detection and diagnosis of chronic diseases, we developed our AI-empowered retina-based early detection, diagnosis and health risk assessment solutions potentially capable of covering a wide range of diseases and lesions. Our portfolio includes SaMDs for detection and diagnosis, health risk assessment solutions and hardware devices, forming an integrated solution of AI-based software and hardware. The following diagram sets forth key details of our portfolio as of the date of this annual report:

Product Type	Product	Indication	Class Of Medical Device	R&D Stage		Registration Stage		Expected timeline for the next milestone	Expected NMPA Registration Certificate Application	
				Early Stage Development ^a	Late Stage Development ^a	Registrational Trial	NMPA Submission			NMPA Approval
SaMDs for Detection and Diagnosis	Airdoc-AIFUNDUS	Ver. 1.0	Diabetic retinopathy	Class III	[Progress bar]				Approved in August 2020	
			Hypertensive retinopathy		[Progress bar]					
			Retinal vein occlusion	Class III	[Progress bar]				Have applied in Q4 2022	
		Ver. 2.0	Age-related macular degeneration (AMD)		[Progress bar]					
		Ver. 3.0	Pathological myopia	Class III	[Progress bar]					
			Retinal detachment		[Progress bar]				Q2 2023	To apply in H1 2024
			Glaucoma detection	Class II	[Progress bar]				Approved in June 2020	
			Cataracts detection	Class II	[Progress bar]				Approved in January 2022	
		Individual Products	ICVD / ASCVD	Class III	[Progress bar]				Q4 2023	To apply in H2 2024
			Gestational diabetic retinopathy	Class III	[Progress bar]				Q1 2025	To apply in H1 2026
			Gestational hypertensive retinopathy	Class III	[Progress bar]				Q1 2025	To apply in H1 2026
			Papilledema intracranial hypertension retinopathy	Class III	[Progress bar]				Q4 2023	To apply in H2 2026
			Anemia	Class II	[Progress bar]				Q4 2022	To apply in Q4 2023
Product Type	Indication	R&D Stage		Registration Stage		Commercialization Stage				
		Early Stage Development ^a	Late Stage Development ^a							
Health Risk Assessment Solutions ^b	55 types of lesions and diseases ^c	[Progress bar]				Commercialization				
	Hyperthyroidism	[Progress bar]								
	Graves ophthalmopathy (external eye)	[Progress bar]								
	Retinal vein occlusion (prediction)	[Progress bar]								
	Dementia	[Progress bar]								
	Parkinson's disease	[Progress bar]								
	Atrial fibrillation	[Progress bar]								
	Arteriosclerosis (middle or large artery)	[Progress bar]								
Product Type	Product	Class Of Medical Device	R&D Stage		Registration Stage		Expected timeline for the next milestone	Expected NMPA Registration Certificate Application		
			Early Stage Development ^a	Late Stage Development-Pilot Production ^a	NMPA Submission	NMPA Approval				
Proprietary Hardware Device	AI-FUNDUSCAMERA-P	Class II	[Progress bar]				Approved in March 2021			
	AI-FUNDUSCAMERA-D	Class II	[Progress bar]				Approved in July 2022			
	AI-FUNDUSCAMERA-M	Class II	[Progress bar]				Q2 2023	To apply in Q4 2023		
Treatment Device	Myopia treatment device	Class II	[Progress bar]				Q3 2023	To apply in Q4 2023		

Our Core Product

Management Discussion and Analysis

1. Denotes the process of data collection, data labelling and model training.
2. Denotes the process of data supplementation, algorithm training iteration and algorithm validation.
3. No regulatory approval or registration is required for the sales of our health risk assessment solutions in consumer healthcare environments and eye health management settings.
4. During the Reporting Period, we offer health risk assessment solutions with the ability to detect risk indicators, including risk assessments of retinal abnormalities, retinal vascular diseases, vitreous abnormalities, retinal tumors, optic nerve pathologies, macular diseases, congenital anomalies of the retina, cardiovascular disease and anemia.
5. Denotes the process of product planning, product definition, engineering verification and design verification.
6. Denotes the process of production verification.

SaMDs for Detection and Diagnosis

We have Airdoc-AIFUNDUS, our in-house developed Core Product, and a pipeline of seven other in-house developed individual SaMDs in our SaMD portfolio.

Airdoc-AIFUNDUS — Our Core Product

Our Airdoc-AIFUNDUS is an AI-based SaMD that uses sophisticated deep learning algorithms to accurately detect and diagnose chronic diseases from retinal images. We developed Airdoc-AIFUNDUS based on our proprietary AI-empowered retina-based early detection, diagnosis and health risk assessment technology platform, which is driven by deep learning technologies and fully validated in terms of scientific theory, clinical trial data and clinical pathway.

We have three versions of Airdoc-AIFUNDUS. Our Airdoc-AIFUNDUS (1.0) was the first AI-empowered retina-based auxiliary diagnosis product that obtained the Class III medical device certificate from the NMPA for assisting physicians in medical institutions with detecting and diagnosing diabetic retinopathy. In our multi-center clinical trial with 1,000 enrolled patients, our Airdoc-AIFUNDUS (1.0) demonstrated an industry-leading sensitivity of 91.75% and specificity of 93.10%. Moreover, our Airdoc-AIFUNDUS (1.0) is widely compatible with most fundus cameras on the market, which enables us to be well-positioned to capture the significant market opportunity. With diabetic retinopathy being the most common diabetes complication, we have marketed our Airdoc-AIFUNDUS (1.0) to the departments of endocrinology, ophthalmology and physical examination in hospitals.

Airdoc-AIFUNDUS (2.0) is designed for the auxiliary diagnosis of hypertensive retinopathy, retinal vein occlusion and AMD. Upon completion of the entire process of clinical trial in the third quarter of 2022, we have applied to the NMPA for registration approval for the new indications in the fourth quarter of 2022. Our Airdoc-AIFUNDUS (2.0) has the potential to become the first AI-based auxiliary diagnosis SaMD in China that is expanded with multiple indications approved. After obtaining the registration approval of new indications, we plan to market our Airdoc-AIFUNDUS (2.0) to the departments of cardiology and neurology in addition to the departments in hospitals mentioned above and promote it to patients with high blood pressure or at high risk of retinal vein occlusion and AMD.

Airdoc-AIFUNDUS (3.0) is designed for the auxiliary diagnosis of pathological myopia and retinal detachment to address the increasing myopia and vision problems in China, especially in younger generations.

Management Discussion and Analysis

Glaucoma Detection SaMD

Our glaucoma detection SaMD is used to process and analyze fundus images to detect glaucoma by measuring the CDR of the optic disc. Featuring high accuracy, objectivity and efficiency, our glaucoma detection SaMD allows an editable and traceable analysis process while enabling physicians to rely less on experience and training to generate the CDR in early detection of glaucoma. We received a Class II medical device registration certificate for our glaucoma detection SaMD from the Shanghai branch of the NMPA in June 2020.

Cataracts Detection SaMD

Our cataracts detection SaMD is designed to detect cataracts by measuring the color value of the eye lens. Our cataracts detection SaMD can help ophthalmologists conveniently detect cataracts in a more standardized and scalable way and facilitate the process of grading cataracts in an accurate and objective fashion. We received a Class II medical device registration certificate for our cataracts detection SaMD from the Shanghai branch of the NMPA in January 2022.

Other SaMDs for Detection and Diagnosis

We are developing five other SaMDs designed for the detection and auxiliary diagnosis, covering ICVD and ASCVD, gestational diabetic retinopathy, gestational hypertensive retinopathy, papilledema intracranial hypertension retinopathy and anemia based on our AI-empowered retina-based early detection, diagnosis and health risk assessment technology platform.

Health Risk Assessment Solutions

As chronic disease prevalence in China continues to rise, people's health awareness as well as the need for health risk assessment is also rapidly growing. To capture this massive market opportunity, we develop our AI-empowered retina-based health risk assessment solutions that provide end users with basic health assessment and detect risk indicators, including retinal abnormalities, retinal vascular diseases, vitreous abnormalities, retinal tumors, optic nerve pathologies, macular diseases, congenital anomalies of the retina, cardiovascular diseases and anemia. Targeting a wide range of business settings that act as entry points of daily health monitoring and eye health management, we customize our health risk assessment solutions to cater to their unique needs raised in different healthcare environments. With our health risk assessment solutions currently covering 55 types of lesions and diseases, we market it to various types of healthcare providers, which primarily include health checkup centers, insurance companies, optometry centers and pharmacies. We also plan to expand the coverage of diseases and lesions of our health risk assessment solutions to include hyperthyroidism, graves ophthalmopathy, retinal vein occlusion, dementia, Parkinson's disease, atrial fibrillation and arteriosclerosis, among others.

Proprietary Hardware Devices

We have three in-house developed fundus cameras that are compatible with our auxiliary diagnosis SaMDs and health risk assessment solutions, enabling us to provide integrated healthcare solutions that combine hardware and software. Together with our software products, our hardware devices are powered by on-device AI technologies such as speech recognition, speech synthesis and computer vision and can successfully address pain points of existing fundus cameras on the market at a fraction of the cost. In addition, we also launched a myopia treatment device loaded with our self-developed AI algorithm for dynamic real-time tracking. The device irradiates the fundus with repeated low-intensity light at 650nm, increases the thickness of the choroid, and inhibits the excessive growth of the eye axis, thereby controlling the progression of myopia.

Management Discussion and Analysis

AI-FUNDUSCAMERA-P

Our AI-FUNDUSCAMERA-P is a portable, automatic and self-service fundus camera that can easily apply to any healthcare environments, which is a breakthrough innovation from existing fundus cameras. Our products are operator-free and can complete the retinal image capture automatically while traditional fundus cameras require professionals to operate. We received a Class II medical device certificate from the Shanghai branch of the NMPA for our AI-FUNDUSCAMERA-P in March 2021 and had commenced commercialization since then.

AI-FUNDUSCAMERA-D

Our AI-FUNDUSCAMERA-D is a fully automatic and fully self-service desktop fundus camera with comparable image quality but significantly lower costs than traditional high-end desktop fundus cameras. Its infrared imaging and low-light enhancement technologies facilitate the capture of high-quality images. We received the Class II medical device registration certificate for our AI-FUNDUSCAMERA-D from the Shanghai branch of the NMPA in July 2022. We kick-started the commercialization of our desktop version in various healthcare environments to meet the customer's needs for large-sized fundus cameras.

AI-FUNDUSCAMERA-M

Our AI-FUNDUSCAMERA-M is a multimodal health scanner integrated with more biosensors that enable it not only to capture retinal images but also other physiological data, such as electrocardiograms, blood oxygen and blood pressure. The collection of multimodal physiological data serves as the foundation of our AI-based health risk assessment solutions.

WARNING UNDER RULE 18A.08(3) OF THE LISTING RULES: WE MAY NOT BE ABLE TO ULTIMATELY DEVELOP AND MARKET OUR CORE PRODUCT, AIRDOC-AIFUNDUS.

R&D

We continue developing AI-empowered retina-based technology to enhance our existing pipeline and to provide comprehensive and multi-faceted high-quality AI-based solutions for chronic disease early detection and diagnosis. We have primarily focused our efforts on developing deep learning algorithms, processing and labeling medical data, developing engineering infrastructures for algorithm training and data analysis, and developing technologies for our hardware devices. As of the date of this annual report, we have developed over 90 deep learning algorithms to cover a comprehensive range of diseases, lesions and health risks.

We are one of the few in the industry that offer solutions that integrate software, algorithms, hardware and services together as one product. While our AI-based SaMDs are compatible with various fundus cameras on the market, we believe that our in-house developed hardware devices powered by on-device AI technologies provide an improved user experience, better algorithm optimization with our software, seamless end-to-end performance and greater cost effectiveness that make us the solution-of-choice to customers. During the Reporting Period, we continued developing new algorithms and optimizing existing ones so as to increase screening efficiency, improve diagnosis accuracy and cover more health risks while reducing cloud computing costs. We streamlined, consolidated and upgraded our AI-based product solutions to better cater to our three business pillars: Airdoc Medical, Airdoc Health and Airdoc Eye Health. In addition, we also upgraded our hardware devices in a comprehensive manner that integrates enhancements from hardware itself, algorithms, software and product solutions. We continue reducing hardware costs while enhancing its performance by optimizing the on-device AI-empowered algorithms rather than purely using high-end sophisticated optical components.

Management Discussion and Analysis

As of the date of this annual report, we had quite a few R&D achievements that will reinforce the foundation for our future growth. For example, in May 2022, we jointly published a research paper together with Beijing Tongren Hospital Eye Center (北京同仁醫院眼科中心) in The JAMA Network Open regarding the performance of RAIDS in detecting and screening 10 retinal diseases. The results showed that RAIDS achieved a sensitivity of 89.8% to detect any of 10 retinal diseases and differentiated 10 retinal diseases with accuracies ranging from 95.3% to 99.9%. Compared with human retinal specialists, RAIDS showed a higher sensitivity for detecting retinal abnormality and greater efficiency for assessing retinal images. As a result, the AI-empowered retinal imaging technology not only may help overcome the lack of experienced ophthalmologists in underdeveloped areas, but also is better positioned to serve the needs for large-scale screening.

In terms of our product pipeline, we received the Class II medical device registration certificate for our desktop fundus camera AI-FUNDUSCAMERA-D from the Shanghai branch of the NMPA in July 2022.

Also in July 2022, we received the Wu Wen Jun AI Science & Technology Progress Award (吳文俊人工智能科技進步獎), the highest award for intelligent science and technology in China, for the second time since 2019. This makes us the first medical AI company in China who received this award twice.

In October 2022, we jointly published an essay about the researchers' innovative R&D and verification of an AI algorithm model to distinguish the fundus photos of retinal vein occlusion patients from normal people in *Eye*, a sub-journal of *Nature*, with West China Hospital of Sichuan University (四川大學華西醫院) and Chengdu iKang Guobin Physical Examination Center Co., Ltd. (成都愛康國賓健康體檢中心有限公司), which may become a powerful tool for predicting the risk of retinal vein occlusion and other cardiovascular and cerebrovascular diseases in the future.

In November 2022, we completed the project "Research and Development of Fundus Image Artificial Intelligence Recognition and its Application in Blinding Eye Disease and Cardiovascular Risk Assessment" in collaboration with Zhongshan Eye Center of Sun Yat-sen University (中山大學中山眼科中心), Beijing Tongren Hospital affiliated with the Capital Medical University (首都醫科大學附屬北京同仁醫院), Peking University (北京大學) and Beijing Tsinghua Changgung Hospital affiliated with the Tsinghua University (清華大學附屬北京清華長庚醫院), which was awarded the second prize of the 2021 Beijing Science and Technology Progress Award (北京市科學技術進步獎).

In December 2022, we jointly published a paper with Dr. XIE Wuxiang (解武祥), a researcher at the Peking University Clinical Research Institute (北京大學臨床研究所) in the top international journal *Age and Ageing* (IF: 12.782, the journal ranked first in the field of geriatrics), which is the world's first study that combines AI technology with fundus image to identify people at high risk of dementia. We participated in the research and provided strong technical support and guarantee for the smooth development of the research.

With our continuous efforts and achievements in R&D, taking retinal images as an entry point of detection, we use AI-empowered algorithms to explore multiple diseases with medical evidence of medicine algorithms on retinal nerve cells and veins.

Our R&D team has accumulated substantial industry experience and is the foundation of our success. As of the date of this annual report, our R&D team consisted of 114 members, all of whom hold bachelor's or higher degrees.

Our R&D team has deep experience in AI technologies and medicine with a full spectrum of expertise across deep learning, medicine, computer vision, data analytics, internet service, medical devices, biology and other disciplines. Our R&D team is led by our chief technology officer, Dr. HE Chao, and our chief medical officer, Dr. CHEN Yuzhong.

Management Discussion and Analysis

Manufacturing

To better meet our customers' increasing demands for different types of fundus cameras, we have built up our own manufacturing capabilities, which allow us to manufacture our hardware devices in house. During the Reporting Period, we purchased raw materials for the production of our self-developed fundus cameras, such as plastic molds, metal components and printed circuit board assembly. Our fundus cameras are manufactured in our production facility located in Hunan Province. We have adopted a series of procedures to ensure that our production qualifications, facilities and processes comply with the relevant regulatory requirements and our internal guidelines. We recruit our factory staff with reference to their qualification, expertise and familiarity with technologies and equipment. During the Reporting Period, we produced our AI-FUNDUSCAMERA-P for commercialization independently in our Hunan manufacture site. With the Class II medical device registration certificate for our AI-FUNDUSCAMERA-D now in place, we are ready to commence large-scale production of our desktop fundus camera.

Our Commercialization Progress

Our portfolio of AI-empowered retina-based early detection, diagnosis and health risk assessment solutions has potentially broad applications and coverage of a wide range of chronic diseases. Given the wide range of healthcare environments that can use our products, we have developed a flexible and multi-channel sales and marketing strategy to cover various commercialization pathways in medical institutions, consumer healthcare environments and eye health management settings.

During the Reporting Period, the number of our customers increased from 244 in 2021 to 397 in 2022. We continued expanding our service network to cover a growing number of service sites operated by our customers. During the Reporting Period, excluding the seasonal factor, we had approximately 2,371 service sites on a monthly basis where day-to-day diagnosing activities via SaMDs and assessing activities via health risk assessment solutions were conducted. For the Reporting Period, we had detected 4.3 million cases ("**Uses**") via our SaMDs and health risk assessment solutions, representing a year-over-year decrease of 12%, mainly due to limited on-site activities in the relevant business settings where our products and solutions are applied. For our provision of SaMDs or health risk assessment solutions, we charge our customers on a pay-per-use basis based on the actual amount of testing services we provided, or charge our customers a preset fee for a predetermined or unlimited amount of testing services during the subscription period pursuant to the service agreements with our customers. For the Reporting Period, we charged an average of RMB20.3 per Use, calculated by dividing our revenue from provision of AI-based software solutions by the users, representing a year-over-year increase of 4.5% as compared to RMB19.9 in 2021, primarily due to the capability improvement of our AI-based solutions.

We had established an in-house sales and marketing team of 64 members as of the date of this annual report to provide our customers with a full life cycle of customized supports. Our sales and marketing team which comprises functions of sales, product solution and customer success covers different geographic regions and different commercialization channels. We provide our sales and marketing personnel with comprehensive training covering our corporate culture, product knowledge, medical theories and marketing system, etc.

Management Discussion and Analysis

Airdoc Medical

Airdoc Medical covers medical institutions which include hospitals, primary healthcare institutions (such as community clinics) and health checkup centers. Aiming to be of great help to eye doctors and address the issue of lack of experienced retinal specialists in underserved regions, our solution for Airdoc Medical primarily serves the clinical needs for detection and auxiliary diagnosis of certain indications with quantitative measurements, such as the total size and number of hemorrhages and exudates. For example, we promote our Airdoc-AIFUNDUS to medical institutions to assist physicians with medical diagnoses and target patients with chronic diseases covered by our Airdoc-AIFUNDUS. In August 2020, we received the Class III medical device registration certificate from the NMPA for our Airdoc-AIFUNDUS (1.0), the SaMD approved for the auxiliary diagnosis of diabetic retinopathy. We have started the commercialization of our Airdoc-AIFUNDUS (1.0) since early 2021.

For our sales to hospitals, we will seek to include our Airdoc-AIFUNDUS (1.0) in the pricing guidance in most provinces in China, upon which hospitals can charge patients separately for such medical service. As of the date of this annual report, the pricing guidance of fundus image analysis in large populations had been issued by local governmental authorities in Beijing, Hebei, Shandong, Shanxi, Anhui and Jiangsu, pursuant to which our Airdoc-AIFUNDUS can be utilized as a new charging item. We are currently working on assisting several hospitals across multiple provinces to obtain the pricing guidance. Depending on the evolving healthcare-related policies and regulations adopted by various local governments, we may adjust from time to time the strategy in terms of in which province we apply for the pricing guidance in order to obtain it as soon as possible. Although our expected applying progress has been adversely affected by the limited on-site activities in the medical institutions, we have managed to assist hospitals in Jilin, Hubei, Hunan and Jiangxi with the applying during the Reporting Period. For primary healthcare institutions and health checkup centers, we also market our health risk assessment solutions.

We are dedicated to increasing our penetration in hospitals across the country while expanding our coverage of primary healthcare institutions which represent the majority of medical institutions in China. For the Reporting Period, we had sold our Airdoc-AIFUNDUS (1.0) to 63 hospitals and 155 primary healthcare institutions, with the monthly average number of service sites related to hospitals and primary healthcare institutions increasing year over year by over 200%. In addition, we also implemented our AI-based solutions in over 180 health checkup centers across China. For the Reporting Period, we recorded revenue of RMB28.2 million from Airdoc Medical, and generated revenue of RMB25.1 million from the sales of our Airdoc-AIFUNDUS (1.0).

Airdoc Health

Airdoc Health covers a wide range of consumer healthcare environments, such as insurance companies and pharmacies, to which we offer our health risk assessment solutions that focus on chronic diseases. As the concept of health management is on the rise, more types of business settings have emerged as the entry point of daily health management for specific populations, and they are keen to better serve their end users' specific healthcare needs. This is where we can perfectly fit in. With our solution for Airdoc Health, we empower consumer healthcare environments to provide the AI-enabled assessment of risk factors for chronic diseases and continuous health monitoring, allowing high-quality healthcare accessible in a much wider range of business settings and to a much larger base of end users.

Management Discussion and Analysis

In the business setting of insurance, we assist insurance companies in evaluating the health conditions of their insurance applicants and insured members in an accurate, efficient and continuous manner. For example, we helped one of our insurance customers build health stations at its branch offices where its end customers can take regular health checkups. To explore additional business opportunities in the insurance industry, we are expanding our cooperation with insurance companies from life insurance to more types of insurance, such as health insurance and group insurance. As of the date of this annual report, we had provided our solutions to nearly 94 insurance companies, among which many were top commercial insurance companies. In the business setting of pharmacy, we enable pharmacy chains and pharmaceutical companies to utilize pharmacies as a landing point for various healthcare services and managing chronic diseases in the healthcare ecosystem. During the Reporting Period, our health risk assessment solutions were used by over 780 pharmacies across the country with the monthly average number of service sites increased year over year by over 200%. In addition, we continue exploring business opportunities in government well-being projects where we assist local governments with the large-scale screening of chronic diseases. For the Reporting Period, we recorded revenue of RMB41.8 million from Airdoc Health.

In overseas markets, we have obtained approvals and completed registrations for our fundus cameras in the EU and the United States. We have completed the registration of Airdoc-AIFUNDUS (1.0) software in Malaysia and Indonesia, and further expanded into Singapore.

Airdoc Eye Health

Airdoc Eye Health covers various eye health management settings, such as optometry centers and government-backed vision screening projects, to which we offer our health risk assessment solutions that focus on retinal conditions and eye diseases. People's eye health awareness in general is being raised along with the development of eye care infrastructure. Myopia control and prevention in particular has become not only a national campaign promoted by the government, but also an activity that parents would prioritize to conduct as their children are facing with more schoolwork. According to the data provided by the National Health Commission, in 2020, the overall myopia rate of children and adolescents in China was 52.7%, including 14.3% for children aged 6, 35.6% for primary school students, 71.1% for junior high school students and 80.5% for senior high school students. The risk of eye complications caused by high myopia, such as myopic macular degeneration, retinal detachment, glaucoma and cataract, increased exponentially, making the number of patients with high myopia related eye diseases and vision loss significantly increase. With our solution for Airdoc Eye Health, we address the needs for eye health evaluation as well as myopia control and prevention. For optometry centers, we provide our customers with a comprehensive analysis of their end customers' retinal conditions, enabling them not only to identify risk factors that may lead to impaired vision, but also provide customized professional eyeglasses prescriptions. During the Reporting Period, our solutions had been deployed in over 1,200 optometry centers across China. During the Reporting Period, we launched a myopia treatment device loaded with our AI Technologies for dynamic real-time tracking, which irradiates the fundus with repeated low-intensity light at 650nm, increases the thickness of the choroid of the eye, and inhibits the excessive growth of the eye axis, thereby controlling the progression of myopia. It is an effective choice for the prevention and control of myopia in children and young people. We will start the commercialization of our myopia treatment device in various medical and health scenarios to meet the needs of customers for myopia prevention and control. For the Reporting Period, we recorded revenue of RMB43.6 million from Airdoc Eye Health.

Management Discussion and Analysis

Impact of Limited On-site Activities

Limited on-site activities in the relevant business settings where our products and solutions are applied caused a significant adverse impact on our business operations during the Reporting Period, especially in the second quarter of 2022. Although we managed to further expand our customer base as compared with that of last year, the temporary closure of service sites experienced by some of our customers and people's reluctance to meet face-to-face under such circumstances still materially reduced the usage of our products and services at offline service sites. However, based on our expanded customer base and continued efforts in acquiring new ones, we have seen a rebound in our Uses after the Reporting Period. We expect to pick up the pace in this year as the on-site activities resume.

Future Development and Outlook

To realize “more intelligence, better care” and capture market opportunities in various healthcare service settings, we will further execute our business strategy of multi-faceted commercialization and better cater to different types of customers across Airdoc Medical, Airdoc Health and Airdoc Eye Health. In addition to these three key business pillars that support our business expansion domestically, we will also continue to explore growth opportunities in overseas markets supported by our dedicated sales and marketing team. With initial results achieved in a few countries such as the Singapore, Indonesia, Thailand, Malaysia and South Africa, we also gained market access in the United States and EU for our own fundus cameras in late June 2022. Besides the aforementioned developments to our principal business, we also launched a myopia treatment device in 2022, which is able to bring significant synergetic effects to our existing business. In order to address the needs for eye health evaluation as well as myopia control and prevention, the product was developed to treat pseudomyopia, assist in the treatment of mixed myopia and refractive myopia, and prevent true myopia through the joint action of repeated low-intensity light at 650nm and eye muscle training. Based on the full suite of integrated AI-based software and hardware solution that has established commercialization pathways in China, we aim to increase our global coverage as well in more countries in the years to come.

FINANCIAL REVIEW

Revenue

During the Reporting Period, we primarily generated revenue from three business pillars, namely Airdoc Medical, Airdoc Health and Airdoc Eye Health, by providing customers with our integrated AI-based software and hardware solutions. We offer AI-based software solutions by providing SaMDs to medical institutions and providing health risk assessment solutions to various healthcare providers. Depending on customer needs, we may sell our software as a standalone product, or as a bundle with our proprietary or third-party hardware if those customers who want to buy our software do not own any fundus camera in the first place. We also provided our customers with other services which primarily include procurement services we provided to some of our customers for the third-party hardware devices and software development services we provided to our customers according to their customization requirements.

Our revenue decreased by 1.3% from RMB115.2 million for the year ended December 31, 2021 to RMB113.7 million for the year ended December 31, 2022. This decrease was primarily due to the decrease in revenue generated from the business of Airdoc Health, as a result of limited on-site activities at relevant service sites partially offset by the increase in revenue generated from the business of Airdoc Eye Health.

Management Discussion and Analysis

Cost of Sales

Our cost of sales primarily consists of (i) depreciation expenses which primarily relate to the depreciation of hardware devices; (ii) hardware devices costs which represent the purchase costs of fundus cameras and myopia treatment device from third parties that were used with our software; (iii) employee benefits expenses; and (iv) cloud service fees which represent the service fees we paid to cloud service suppliers to support our AI-based software solutions.

Our cost of sales increased by 28.6% from RMB44.9 million for the year ended December 31, 2021 to RMB57.8 million for the year ended December 31, 2022, primarily due to an increase in the purchase costs of myopia treatment device.

Gross Profit and Gross Profit Margin

As a result of the aforementioned factors, the gross profit of the Group decreased from RMB70.2 million for the year ended December 31, 2021 to RMB55.9 million for the year ended December 31, 2022. Gross profit margin is calculated as gross profit divided by revenue. The overall gross profit margin of the Group decreased from 61.0% for the year ended December 31, 2021 to 49.1% for the year ended December 31, 2022, primarily due to the disproportion between increases in revenue and cost of sales as we expanded our Airdoc Eye Health business by launching the myopia treatment device. For the Reporting Period, the gross profit margin of our AI-based software solutions was 64.0%.

Other Income

Other income primarily consists of (i) investment income from wealth management products, representing fair value changes incurred in our investment in wealth management products; (ii) interest income from bank deposits; (iii) investment income from debt instruments; (iv) government grants, which primarily represent one-off government grants we received from local governmental authorities to support our R&D; and (v) exchange gain or loss.

Our other income increased from RMB1.4 million for the year ended December 31, 2021 to RMB67.5 million for the year ended December 31, 2022, primarily attributable to a net foreign exchange gain of RMB58.6 million.

Management Discussion and Analysis

R&D Expenses

Our R&D expenses primarily consist of (i) employee benefits expenses for our employees involved in R&D; (ii) product development expenses, representing expenses incurred for AI studies, R&D activities, technical services, medical equipment and testing services; (iii) product registration expenses; (iv) IP registration expenses; (v) depreciation expenses in relation to our R&D equipment and facilities; and (vi) others, which primarily include leasing expenses for our R&D facilities, travel expenses, utilities expenses and other general office expenses for R&D activities. The following table sets forth a breakdown of our R&D expenses for the periods indicated.

	For the year ended December 31,	
	2022 RMB'000	2021 RMB'000
Employee benefits expenses	92,304	44,266
Product development expenses	10,446	6,343
Product registration expenses	9,214	2,650
IP registration expenses	3,230	5,706
Depreciation expenses	4,364	2,376
Others	6,036	2,924
Total	125,594	64,265

Our R&D expenses increased by 95.4% from RMB64.3 million for the year ended December 31, 2021 to RMB125.6 million for the year ended December 31, 2022, primarily due to an increase in employee benefits expenses as a result of the expansion of our R&D team, as well as our continuing investment in the fast-growing product pipeline of AI-based software solutions and hardware devices.

Selling Expenses

Our selling expenses primarily consist of employee benefits expenses for our in-house sales and marketing team as well as marketing expenses.

Our selling expenses increased by 37.8% from RMB72.6 million for the year ended December 31, 2021 to RMB100.0 million for the year ended December 31, 2022, primarily because an increase in employee benefits expense along with the expansion of our sales and marketing team.

Administrative Expenses

Our administrative expenses mainly consist of employee benefits expenses for our employees involved in administrative and supportive functions and professional service expenses.

We recorded administrative expenses of RMB80.1 million for the year ended December 31, 2022 (2021: RMB77.1 million).

Management Discussion and Analysis

Finance Costs

Our finance costs mainly consisted of interest on leasing liabilities relating to our lease of office premises. We recorded finance costs of RMB0.4 million for the year ended December 31, 2022 (2021: RMB0.3 million).

Income Tax

We did not incur any income tax for the year ended December 31, 2022 (2021: nil).

Loss for the Year

We recorded a loss of RMB182.7 million for the year ended December 31, 2022, as compared to a loss of RMB142.5 million for the year ended December 31, 2021.

Property, Plant and Equipment

Our property, plant and equipment primarily consist of (i) hardware devices, representing fundus cameras which have been deployed or will be deployed at our customers' service site to be used together with our software; (ii) furniture and others; (iii) right-of-use assets, representing the leasing of our offices; and (iv) leasehold improvement.

Our property, plant and equipment decreased from RMB45.0 million as of December 31, 2021 to RMB33.1 million as of December 31, 2022 primarily due to an increase in depreciation of our hardware devices.

Other Financial Assets

Our other financial assets increased from RMB3.6 million as of December 31, 2021 to RMB165.1 million as of December 31, 2022, primarily due to the purchase of wealth management products and the investment in an industry fund in 2022.

Inventories

Our inventories primarily consist of raw materials for manufacturing our self-developed fundus cameras and the third-party fundus cameras we purchased for the bundled sales together with our software. We assign specific personnel to regularly monitor our inventories and endeavor to keep an optimal inventory level in line with the expected usages in the near term.

Our inventories increased from RMB7.7 million as of December 31, 2021 to RMB29.6 million as of December 31, 2022, primarily due to the procurement and stockpiling for raw material inventory to support the manufacture and sales of our self-developed fundus cameras.

Trade Receivables

Our trade receivables increased from RMB34.0 million as of December 31, 2021 to RMB63.9 million as of December 31, 2022, which was generally in line with the growth of our business. During the Reporting Period, we granted credit terms to our customers on a case-by-case basis based on our assessment. Our average trade receivables turnover days increased from 87 days in 2021 to 169 days in 2022, primarily due to a relatively longer payment collection from our customers, which were also affected by the limited on-site activities in the relevant business settings where our products and solutions are applied.

Management Discussion and Analysis

Deposits, Prepayments and Other Receivables

Our deposits, prepayments and other receivables slightly increased from RMB19.2 million as of December 31, 2021 to RMB19.4 million as of December 31, 2022, primarily due to an increase in value added tax generated by purchasing raw materials, fundus cameras, and myopia treatment device.

Cash and Cash Equivalents

Our cash and cash equivalents decreased from RMB1,784.6 million as of December 31, 2021 to RMB1,268.3 million as of December 31, 2022, primarily due to purchase of financial assets, investment in an industry fund made and the use of cash in the ordinary course of business during the Reporting Period.

Trade and Other Payables

Our trade and other payables decreased from RMB48.5 million as of December 31, 2021 to RMB42.0 million as of December 31, 2022, primarily attributable to a decrease in payables relating to the listing expenses, partially offset by the increase of trade payables to our suppliers as a result of our business expansion. During the Reporting Period, we were typically granted credit terms of one month by our suppliers. Our average trade payables turnover days decreased from 45 days in 2021 to 40 days in 2022, primarily due to the prepayment for purchase of raw materials at the end of 2022 in the preparation for producing our self-developed fundus cameras.

Liquidity and Source of Funding

Our policy is to regularly monitor our liquidity requirements and our compliance with lending covenants, to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer term.

As of December 31, 2022, our current assets were RMB1,675.8 million, including inventories of RMB29.6 million, trade receivables of RMB63.9 million, deposits, prepayments and other receivables of RMB19.4 million, restricted bank deposits of RMB150.0 million, cash and cash equivalents of RMB1,268.3 million and other financial assets of RMB144.7 million. As of December 31, 2022, our current liabilities were RMB64.7 million, including trade and other payables of RMB42.0 million, contract liabilities of RMB18.2 million, lease liabilities of RMB4.1 million and current taxation of RMB0.4 million.

Borrowings

As of December 31, 2022, we did not have any bank loans or other borrowings (2021: nil).

Contract Liabilities

Our contract liabilities represent our obligations to transfer services to our customers as we entered into services agreements with our customers for AI-based software solutions and sales of hardware devices for which we have received advanced payments from such customers under the relevant customer service agreements or work orders.

Our contract liabilities increased from RMB17.1 million as of December 31, 2021 to RMB18.2 million as of December 31, 2022, which was primarily due to the increase in the advances received from customers for new contracts signed in the second half of 2022.

Management Discussion and Analysis

Lease Liabilities

Our lease liabilities decreased from RMB8.2 million as of December 31, 2021 to RMB8.0 million as of December 31, 2022, which was primarily because of scheduled rent payments partially offset by new lease contracts.

Net Current Assets

The decrease in our net current assets from RMB1,774.8 million as of December 31, 2021 to RMB1,611.2 million as of December 31, 2022.

Gearing Ratio

Gearing ratio is calculated by using interest-bearing borrowings and lease liabilities less cash and cash equivalents, divided by total equity and multiplied by 100%. As of December 31, 2022, the Company was in a net cash position and thus, the gearing ratio is not applicable.

Treasury Policy

We adopt a prudent financial management approach for our treasury policy to ensure that our liquidity structure comprising assets, liabilities and other commitments is able to always meet our capital requirements.

Profiles of Directors, Supervisors and Management

EXECUTIVE DIRECTORS

Mr. ZHANG Dalei (張大磊), aged 40, our founder, joined our Group on September 9, 2015 and was appointed as a Director and chairman of the Board on the same date. Mr. Zhang was re-designated as an executive Director on April 30, 2021. Mr. Zhang is primarily responsible for the overall management of the business strategy and corporate development of our Group. Furthermore, Mr. Zhang serves as a director in certain subsidiaries of the Company.

Mr. Zhang has accumulated over 13 years of robust experience in the management of high-tech companies and accumulated technological knowledge in the R&D of AI technologies. From April 2015 to September 2015, Mr. Zhang served as the product vice president of Sina Technology (China) Company Limited* (新浪網技術(中國)有限公司). From June 2014 to April 2015, Mr. Zhang served as a vice president at Synapse Computer System (Shanghai) Co., Ltd.* (突觸計算機系統(上海)有限公司), a wholly-owned subsidiary of PPLive Corporation, where he was mainly responsible for product development and technology. From May 2010 to May 2013 Mr. Zhang served as the chief technology officer of Ethos Technologies Inc. (宇思信德科技(北京)有限公司). From March 2008 to April 2010, Mr. Zhang served as a program manager of Macintosh Business Unit of Microsoft (China) Co., Ltd.* (微軟(中國)有限公司).

Mr. Zhang received his bachelor's degree in pharmaceuticals in the PRC in June 2003. Mr. Zhang was granted the "Certified Standards Professional" and recognized as the "Most Valuable Professional" by Microsoft in April 2008 and April 2011, respectively. Mr. Zhang was certified as the Information System Project Manager (Senior)* (信息系統項目管理師(高級)) by Beijing Human Resources and Social Security Bureau (北京市人力資源社會保障局) in November 2010. Mr. Zhang has been serving as a member of Professional Committee of Smart Medical of Chinese Association for Artificial Intelligence* (中國人工智能學會智慧醫療專業委員會) since December 2020. Mr. Zhang was appointed as the vice chairman of industry development and coordination committee by the Asian Optometric Management Association for a two-year term starting from March 2023.

Dr. CHEN Yuzhong (陳羽中), aged 51, joined our Group on August 15, 2017 and was appointed as a Director on November 30, 2018. Dr. Chen was re-designated as an executive Director on April 30, 2021. Dr. Chen is primarily responsible for the medical R&D, product registration and overall operational support of our Group. Since September 2018, Dr. Chen has been serving as the general manager of Airdoc Guangzhou.

Dr. Chen has approximately 21 years of frontline experience applying technology information to clinical practice, including experience in Grade IIIA general hospitals. From February 2013 to July 2017, Dr. Chen served as a deputy director of the administration department of medicine and education of Shanghai Changzheng Hospital* (上海長征醫院), where he was primarily responsible for hospital medical administration, medical insurance, healthcare, quality, health support, informatization, pharmacy, equipment and centralized procurement. From July 2011 to January 2013, Dr. Chen served as a deputy director of teaching department of Shanghai Changhai Hospital* (上海長海醫院). From February 2007 to July 2011, Dr. Chen served as a deputy director of condition construction division of The Second Military Medical University, where he was primarily responsible for school condition construction, information construction, drug equipment management, laboratory animal management, scientific research teaching warehouse management. From December 2004 to February 2007, Dr. Chen served as a secretary of the training department of The Second Military Medical University* (第二軍醫大學) for management of medical, teaching, scientific research, information construction and foreign affairs. From September 1998 to November 2004, Dr. Chen served as a medical assistant of the teaching department of Shanghai Changhai Hospital, where he was primarily responsible for management of outpatient, emergency, Kangbin Building (康賓樓), rehabilitation department, quality, information construction and performance reform.

Profiles of Directors, Supervisors and Management

Dr. Chen received his bachelor's degree, master's degree and doctor's degree of medicine in July 1995, June 1998 and June 2013, respectively, from The Second Military Medical University in the PRC. Since April 2018, Dr. Chen has been serving as a deputy secretary-general of China Medical Imaging AI Industry-Academy-Research-Application Innovation Alliance* (中國醫學影像AI產學研用創新聯盟). Since November 2018, Dr. Chen has served as a member of Professional Committee of Medical Industry Transformation and Health Industry Integration (醫工轉化與健康產業融合專業委員會) of Chinese Research Hospital Association (中國研究型醫院學會). Since December 2020, Dr. Chen has been serving as a deputy director of Professional Committee of Smart Medical of Chinese Association for Artificial Intelligence* (中國人工智能學會智慧醫療專業委員會).

Mr. CHEN Hailong (陳海龍), aged 41, joined our Group on August 22, 2016 and was appointed as a Director on December 7, 2016. Mr. Chen was re-designated as an executive Director on April 30, 2021. Mr. Chen is primarily responsible for the design of product structure, R&D and management of R&D team of application business of our Group.

Mr. Chen has over 16 years of experience in information and technology industry. From April 2011 to August 2016, Mr. Chen served as a structure engineer of Meilishuo (Beijing) Internet Technology Co., Ltd.* (美麗說(北京)網絡科技有限公司), where he was primarily responsible for trading system structure design. From December 2005 to March 2011, Mr. Chen served as a software engineer of Ethos Technologies Inc.

Mr. Chen received his bachelor's degree in computer science and technology from Hebei University of Technology (河北工業大學) in the PRC in July 2005.

Ms. WANG Lin (王林), aged 38, joined our Group as the general counsel in September 2017. On March 30, 2023, Ms. Wang was appointed as an executive Director, succeeding Mr. Gao who resigned as an executive Director on January 13, 2023. For detailed biographical information of Mr. Gao, please refer to the section headed "Profiles of Directors, Supervisors and Management" in the 2021 annual report of the Company dated March 17, 2022. Furthermore, Ms. Wang serves as a director or a supervisor in certain subsidiaries of the Company.

Ms. Wang has approximately 12 years of experience in legal practice. Prior to joining the Group, from March 2011 to July 2017, Ms. Wang served as a legal counsel in Beijing Sohu New Media Information Technology Co., Ltd. (北京搜狐新媒體信息技術有限公司), a wholly-owned subsidiary of Sohu.com Limited (formerly known as Sohu.com Inc.), whose shares are listed on NASDAQ (ticker symbol: SOHU).

Ms. Wang obtained a bachelor's degree in laws from Hubei University (湖北大學) in June 2007 and a master's degree in laws from Beijing Technology and Business University (北京工商大學) in July 2010.

Profiles of Directors, Supervisors and Management

NON-EXECUTIVE DIRECTORS

Mr. CHEN Xin (陳欣), aged 47, joined our Group on May 19, 2022 and was appointed as a non-executive Director on the same date, succeeding Mr. JIANG Bo who resigned as a non-executive Director on May 19, 2022. For detailed biographical information of Mr. JIANG Bo, please refer to the section headed “Profiles of Directors, Supervisors and Management” in the 2021 annual report of the Company dated March 17, 2022. Mr. Chen is primarily responsible for providing guidance and advice on the corporate and business strategies.

Mr. Chen has over 22 years of experience in finance and investment industries. From 1997 to 2000, Mr. Chen successively served as assistant trade service manager, assistant banking services manager and project finance executive in The Hongkong and Shanghai Banking Corporation Limited (HSBC Group). From 2002 to 2011, Mr. Chen successively served as associate and vice president of the corporate finance group of the investment banking division and executive director of the Asian Special Situations Group (ASSG) in Goldman Sachs (Asia) L.L.C. Mr. Chen served as head of China in Permira Advisors (Asia) Limited from 2011 to 2014, served as founding partner of Fides Capital Investors I, L.P. from 2014 to 2017, served as head of direct investment in CMBC Capital Holdings Limited from 2017 to 2018, served as a partner, managing director and head of private equity investment in Ally Bridge Group from 2018 to February 2020, served as the head of investment in Guangdong-Hong Kong-Macao Greater Bay Area and the president in Fosun Capital Flagship Fund from February 2020 to present, served as an independent non-executive director and a member of the audit committee of Fu Shou Yuan International Group Limited (SEHK code: 1448), from January 21, 2021 to present and served as non-executive director of Cosmo Lady (China) Holdings Company Limited (SEHK code: 2298) since February 2022.

Mr. Chen obtained a bachelor’s degree of arts in finance from Fudan University in 1997, a master’s degree in economics from The Hong Kong University of Science and Technology in 2000 and a master’s degree in business administration from The Yale School of Management, major in finance and business strategy, in 2002, respectively.

Ms. ZHU Tingyao (朱艇遙), aged 37, joined our Group on March 30, 2023 and was appointed as a non-executive Director on the same date, succeeding Ms. WANG Mi who resigned as a non-executive Director on January 13, 2023. For detailed biographical information of Ms. WANG Mi, please refer to the section headed “Profiles of Directors, Supervisors and Management” in the 2021 annual report of the Company dated March 17, 2022.

Ms. Zhu has over 12 years of experience in finance and investment industries. Ms. Zhu is currently serving as a vice president in China Ping An Insurance Overseas (Holdings) Limited (中國平安海外保險(控股)有限公司), a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of Ping An Insurance (Group) Company of China, Ltd., whose shares are listed on the Stock Exchange (stock code: 2318) and a director of TytoCare Ltd., a company primarily engaged in medical device and software.

From May 2015 to May 2019, Ms. Zhu served as a senior manager of Tencent Investment in Tencent Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 700). From August 2013 to May 2015, Ms. Zhu served as an associate director in BNP Paribas Securities (Asia) Limited. From August 2010 to July 2013, Ms. Zhu served as an investment analyst of Asian Equities team in HSBC Global Asset Management (Hong Kong) Limited.

Ms. Zhu obtained a Bachelor of Arts in Economics from the University of Cambridge in June 2010.

Profiles of Directors, Supervisors and Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. NG Kong Ping Albert (吳港平), aged 65, joined our Group and was appointed as an independent non-executive Director on April 30, 2021. Mr. Ng is primarily responsible for addressing conflicts and giving strategic advice and guidance to the business and operations of our Group.

Mr. Ng was the chairman of Ernst & Young China, the managing partner of Ernst & Young in Greater China and a member of Ernst & Young's Global Executive Committee. He has over 30 years of professional experience in accounting in Hong Kong and Mainland China. Prior to joining Ernst & Young, Mr. Ng served as Managing Partner of Arthur Andersen in Greater China, Managing Partner, China Operation of PricewaterhouseCoopers and the managing director of Citigroup China Investment Banking.

Mr. Ng is an independent non-executive Director of Ping An Insurance (Group) Company of China, Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 601318) and the Stock Exchange (stock code: 02318)), China International Capital Corporation Limited (a company listed on the Shanghai Stock Exchange (stock code: 601995) and the Stock Exchange (stock code: 03908)), an independent director of Alibaba Group Holding Limited (a company listed on the New York Stock Exchange (stock code: BABA) and the Stock Exchange (stock code: 09988)), and an independent non-executive director of Shui On Land Limited (a company listed on the Stock Exchange (stock code: 272)).

Mr. Ng is the president of the second session of Hong Kong China Chamber of Commerce and once served as a member of the first and second Consulting Committee of Corporate Accounting Standard (企業會計準則諮詢委員會), an advisor of the Hong Kong Business Accountants Association and a member of the Advisory Board of the School of Accountancy of The Chinese University of Hong Kong. Mr. Ng is also a member of the audit committee of The Chinese University of Hong Kong (Shenzhen) and a council member of the Education Foundation of The Chinese University of Hong Kong (Shenzhen).

Mr. Ng has obtained his bachelor's and master's degree in business administration from The Chinese University of Hong Kong in December 1981 and October 1988, respectively. Mr. Ng is also a member of Hong Kong Institute of Certified Public Accountants (HKICPA), Chartered Accountants Australia and New Zealand (CAANZ), CPA Australia (CPAA) and Association of Chartered Certified Accountants (ACCA).

Dr. WU Yangfeng (武陽豐), aged 60, was appointed as an independent Director on December 25, 2020. Dr. Wu was re-designated as an independent non-executive Director on April 30, 2021. Dr. Wu is primarily responsible for addressing conflicts and giving strategic advice and guidance to the business and operations of our Group.

Since July 2006, Dr. Wu has been working at medicine department of Peking University (北京大學) with his current position being the executive deputy director of clinical research institute, a professor of clinical research methodology and a doctoral supervisor.

Before July 2006, Dr. Wu worked at Fuwai Hospital (阜外醫院) with his last position as a director of epidemiology research office, a researcher and a doctoral supervisor. Dr. Wu received his bachelor's degree of medicine from Shanxi Medical College (山西醫學院) in the PRC in December 1984. Dr. Wu received his master's degree and doctor's degree in medicine from Peking Union Medical College (中國協和醫科大學) in the PRC in December 1987 and July 1996, respectively.

Profiles of Directors, Supervisors and Management

Dr. HUANG Yanlin (黃彥林), aged 50, joined our Group on December 25, 2020 and was appointed as an independent Director on the same date. Dr. Huang was re-designated as an independent non-executive Director on April 30, 2021. Dr. Huang is primarily responsible for addressing conflicts and giving strategic advice and guidance to the business and operations of our Group.

Dr. Huang has been serving as an industry advisor in KKR Asia Limited since October 2022. From July 2020 to April 2021, Dr. Huang served as the chief technology officer of 9F Inc. (玖富集團), a company whose shares are listed on NASDAQ (ticker symbol: JFU), where he was primarily responsible for overseeing R&D. From August 2019 to July 2020, Dr. Huang served as the chief technology officer of GOME Holdings Group (國美控股集團), where he was primarily responsible for leading R&D. From September 2016 to June 2019, Dr. Huang served as the chief technology officer of Vipshop Holdings Limited, a company whose shares are listed on the New York Stock Exchange (ticker symbol: VIPS), where he was primarily responsible for leading R&D. From April 2015 to September 2016, Dr. Huang served as the chief technology officer of Sina Technology (China) Company, where he was primarily responsible for leading R&D. Dr. Huang previously served as the chief technology officer of Shanghai SynaCast Media Tech Co., Ltd.* (上海聚力傳媒技術有限公司) (PPTV), where he was primarily responsible for leading R&D. Dr. Huang once worked at Microsoft.

Dr. Huang received his bachelor's degree of science in microbiology from Wuhan University (武漢大學) in the PRC in July 1993. Dr. Huang received his doctor's degree in biochemistry from State University of New York at Buffalo in the United States in September 1999. Dr. Huang received his master's degree in computer science from the University of Virginia in the United States in January 2001.

SUPERVISORS

Mr. WEI Yubo (魏宇博), aged 41, joined our Group on April 30, 2016 and was appointed as a Supervisor on December 7, 2016. Mr. Wei is the chairman of the Board of Supervisors and primarily responsible for overseeing our business operations. Mr. Wei serves as a supervisor in certain subsidiaries of the Company.

From July 2012 to April 2016, Mr. Wei served as an engineer of IGT Technology (Beijing) Co., Ltd. (IGT科技開發(北京)有限公司), where he was primarily responsible for software development and testing. From April 2006 to June 2012, Mr. Wei worked successively at Beyondsoft Technology Co., Ltd.* (博彥科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002649) and Microsoft, where he was mainly responsible for Mac Office Testing.

Mr. Wei received his bachelor's degree in electronic information engineering from Jilin University (吉林大學) in the PRC in July 2004.

Ms. BAI Huihui (白惠惠), aged 32, joined our Group on December 25, 2020 and was appointed as a Supervisor on the same date. Ms. Bai is primarily responsible for overseeing our business operations.

Ms. Bai holds the following positions outside our Group concurrently. Since April 2020, Ms. Bai has been serving as the chairman of the board and general manager at Guoke Kaiyan Capital Co., Ltd.* (國科開研資本有限公司) ("Guoke Capital"). Since March 2019, Ms. Bai has been serving as an executive director and general manager at Geluoli Asset Management Co., Ltd.* (格羅力資產管理有限公司). Since April 2020, she has been serving as a supervisor at Beijing Kaiyan Investment Management Co., Ltd.* (北京開研投資管理有限公司).

From March 2019 to June 2019, Ms. Bai served as a supervisor at Guoke Capital. From June 2019 to April 2020, she served as a director at Guoke Capital.

Ms. Bai received her bachelor's degree in light information science and technology from Shenzhen University (深圳大學) in the PRC in June 2012.

Profiles of Directors, Supervisors and Management

Dr. LUO Ting (羅婷), aged 48, joined our Group on May 19, 2022 and was appointed as a Supervisor on the same date, succeeding Ms. ZHOU Wenjuan who resigned as a Supervisor on May 19, 2022. For detailed biographical information of Ms. ZHOU Wenjuan, please refer to the section headed “Profiles of Directors, Supervisors and Management” in the 2021 annual report of the Company dated March 17, 2022. Dr. Luo is primarily responsible for overseeing our business operations.

Dr. Luo is currently serving as a tenured associate professor at School of Economics and Management, Tsinghua University, and an independent director of (i) Digital China Information Service Company Ltd. (神州數碼信息服務股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 000555); and (ii) Beijing Sanyuan Foods Co., Ltd. (北京三元食品股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600429). Dr. Luo served as an independent director of (i) Beijing Thunisoft Co., Ltd. (北京華宇軟體股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 300271) from March 2020 to August 2022; and (ii) IAT Automobile Technology Co., Ltd. (阿爾特汽車技術股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 300825) from July 2018 to April 2022.

Dr. Luo participated in teaching and research projects covering topics of accounting and finance. Dr. Luo has been qualified as a Certified Public Accountant of the PRC.

Dr. Luo obtained a bachelor’s degree in business management from Peking University and a doctor of philosophy in accounting from University of Wisconsin-Madison in the United States in 1997 and 2007, respectively.

SENIOR MANAGEMENT

Mr. ZHANG Dalei (張大磊), aged 40, was appointed as our chief executive officer on September 9, 2015. Please refer to the section headed “Executive Directors – Mr. ZHANG Dalei” for his biography.

Ms. YANG Wenting (楊文婷), aged 37, joined our Group on June 1, 2020 and was appointed as the chief financial officer of our Company on December 25, 2020. Ms. Yang was also appointed as one of our joint company secretaries on May 12, 2021. Ms. Yang is primarily responsible for the overall management of corporate finance and Board related matters of our Group.

From December 2017 to February 2020, Ms. Yang served as the general manager of the finance department of New Studios Media Co., Ltd. (北京新片場傳媒股份有限公司). From October 2013 to September 2015, Ms. Yang served as the financial controller of Beijing Office of Quadrivium SA, where she was primarily responsible for financial management and investment project management. From October 2008 to October 2013, Ms. Yang served as an audit manager at KPMG Huazhen (Special General Partnership) (畢馬威華振會計師事務所(特殊普通合夥)).

Ms. Yang received her bachelor’s degree in accounting from Hunan University (湖南大學) in June 2007 in the PRC and her master’s degree of business administration (MBA) from the University of Manchester, Alliance Manchester Business School in the United Kingdom in December 2017. She was admitted as a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in November 2013 and admitted as a member of The Association of Chartered Certified Accountants in June 2016.

Save as disclosed above, none of our Directors, Supervisors or senior management members has held any directorship in any public company the securities of which are listed on any securities market in Hong Kong or overseas during the three years preceding the date of this annual report.

To the best of the Board’s knowledge, information and belief, save as disclosed in the annual report, our Directors, Supervisors and senior management do not have any relationship amongst them.

Profiles of Directors, Supervisors and Management

JOINT COMPANY SECRETARIES

Ms. YANG Wenting (楊文婷), was appointed on as one of our joint company secretaries on May 12, 2021. Ms. Yang is also our chief financial officer. Please refer to the section headed “Senior Management — Ms. YANG Wenting” for her biography.

Ms. SO Lai Shan (蘇麗珊), was appointed as one of the joint company secretaries of the Company on January 19, 2022.

Ms. So currently serves as a manager of corporate services of Vistra Corporate Services (HK) Limited. Ms. So has over 10 years of experience in the corporate services industry. She has been an associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom since November 2014.

Corporate Governance Report

The Board is pleased to present the corporate governance report for the Company for the year ended December 31, 2022.

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the Shareholders as a whole. The Company has adopted the code provisions of the CG Code contained in Appendix 14 to the Listing Rules, as its own code to govern its corporate governance practices.

Except for code provision C.2.1 set out below, in the opinion of the Directors, the Company has complied with the relevant code provisions contained in the CG Code during the Reporting Period.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Under the current organization structure of the Company, Mr. ZHANG is the chairman of the Board, chief executive officer and founder of the Company. With extensive experience in the medical devices industry and having served in the Company since its establishment, Mr. ZHANG is in charge of overall management, business and strategic development of the Group. The Board considers that vesting the roles of the chairman of the Board and the chief executive officer in the same person is beneficial to the business operations and management of the Group. The balance of power and authority is ensured by the operation of the Board, which comprises experienced and diverse individuals. The Board currently comprises four executive Directors (including Mr. ZHANG), two non-executive Directors and three independent non-executive Directors, and therefore has a strong independent element in its composition.

The Board will continue to review and monitor the practices of the Company with an aim of maintaining a high standard of corporate governance and assess whether separation of the roles of chairman of the Board and chief executive officer is necessary.

DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding dealings in the securities of the Company by the Directors, Supervisors and the Company's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company's securities.

Upon specific enquiry, all Directors and Supervisors confirmed that they have complied with the Model Code during the Reporting Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the Reporting Period.

BOARD OF DIRECTORS

The Board currently comprises four executive Directors, two non-executive Directors and three independent non-executive Directors.

As at the date of this annual report, the composition of the Board is as followings:

Executive Directors:

Mr. ZHANG Dalei (*Chairman*)
Dr. CHEN Yuzhong
Mr. CHEN Hailong
Ms. WANG Lin

Non-executive Directors:

Mr. CHEN Xin
Ms. ZHU Tingyao

Independent non-executive Directors:

Mr. NG Kong Ping Albert
Dr. WU Yangfeng
Dr. HUANG Yanlin

The biographical details of the Directors are set out in the section headed “Profiles of Directors, Supervisors and Senior Management” on pages 21 to 27 of this annual report.

CONFIRMATION OF INDEPENDENCE BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

During the period from the Reporting Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS AND SUPERVISORS

The Company has entered into a service agreement with each of the Directors and Supervisors which contains provisions in relation to, among other things, compliance of relevant laws and regulations, observation of the Articles of Association and provisions on arbitration.

The principal particulars of these service agreements are: (a) each of the agreements is for a term of three years following his/her respective appointment date; and (b) each of the agreements is subject to termination in accordance with their respective terms. The terms of appointment of each Director may be re-elected in accordance with the Articles of Association and the applicable rules.

Corporate Governance Report

On May 19, 2022, Mr. CHEN Xin and Dr. LUO Ting were appointed as a non-executive Director and a Supervisor, respectively. After the Reporting Period, on March 30, 2023, Ms. WANG Lin and Ms. ZHU Tingyao were appointed as a executive Director and a non-executive Director, respectively.

The Company has entered into a three-year service agreement with each of Mr. CHEN Xin, Dr. LUO Ting, Ms. WANG Lin and Ms. ZHU Tingyao following his/her respective appointment date until the expiry of the term of the first session of the Board or the Board of Supervisors (as the case may be).

The Company has not entered, and does not propose to enter, into any service contracts with any of the Directors or Supervisors in their respective capacities as Directors and Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

The Company may, in accordance with the Articles of Association, remove by ordinary resolution any Director whose term of office has not yet expired (provided that claims of the director for damages under any contract shall not be affected by this).

The Nomination Committee takes the policy on Board diversity of the Company into consideration when it considers the balance of composition of the Board as a whole. The procedures and process of appointment, re-election and removal of directors are set out in the Articles of Association. The primary duties of the Nomination Committee are to make recommendations to the Board regarding the appointment of Directors and Board succession.

RESPONSIBILITIES OF THE DIRECTORS

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

To oversee particular aspects of the Company's affairs, the Board has established four Board committees including the Audit Committee, Remuneration and Appraisal Committee, Nomination Committee and Strategy Committee. The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference. All Board committees are provided with sufficient resources to perform their duties.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders at all times.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has arranged appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against Directors and officers of the Company arising out of corporate activities. The insurance coverage will be reviewed on an annual basis.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

Corporate Governance Report

Each newly appointed Director should be provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. During the Reporting Period, the Directors were regularly briefed on the amendments to or updates on the relevant laws, rules and regulations.

Mr. ZHANG, Mr. GAO, Dr. CHEN Yuzhong, Mr. CHEN Hailong, Ms. WANG Lin, Mr. WANG Mi, Mr. CHEN Xin, Ms. ZHU Tingyao, Mr. NG Kong Ping Albert, Dr. WU Yangfeng and Dr. HUANG Yanlin have been updated with the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. In addition, continuing briefing and professional development to Directors will be arranged whenever necessary.

Each of the aforesaid Directors are encouraged to attend relevant training courses at the Company's expenses and required to submit a signed training records to the Company on an annual basis.

BOARD COMMITTEES

Audit Committee

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the CG Code set out in Appendix 14 to the Listing Rules. The written terms of reference of the Audit Committee are available on the respective websites of the Stock Exchange and the Company.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions and to advise the Board. The Audit Committee comprises three independent non-executive Directors, namely Mr. NG Kong Ping Albert, Dr. HUANG Yanlin and Dr. WU Yangfeng. Mr. NG Kong Ping Albert, being the chairman of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

During the Reporting Period, the Audit Committee convened three meetings. The attendance record of the committee members is set out in the section entitled "Board Meetings and Directors' Attendance Records" in this chapter.

The following is a summary of work performed by the Audit Committee during the Reporting Period:

- reviewed the annual and interim results and/or reports and the Group's financial and accounting policies and practices;
- reviewed the scope of audit and the appointment of auditors;
- reviewed the financial control system and engagement of non-audit services; and
- reviewed the risk management and internal control systems and the effectiveness of internal audit function and discussed with the management and internal audit on their findings.

Remuneration and Appraisal Committee

The Company has established the Remuneration and Appraisal Committee in compliance with Rule 3.25 of the Listing Rules and the CG Code set out in Appendix 14 to the Listing Rules. The written terms of reference of the remuneration and appraisal committee are available on the respective websites of the Stock Exchange and the Company.

Corporate Governance Report

The primary duties of the Remuneration and Appraisal Committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. The Remuneration and Appraisal Committee comprises two independent non-executive Directors and one executive Director, namely Mr. NG Kong Ping Albert, Dr. HUANG Yanlin and Ms. WANG Lin (appointed on March 30, 2023). Dr. HUANG Yanlin is the chairman of the committee. Mr. Gao, an executive Director has ceased to be a member of the Remuneration and Appraisal Committee with effect from January 13, 2023.

During the Reporting Period, one Remuneration and Appraisal Committee meeting was held. The attendance record of the committee members is set out in the section entitled “Board Meetings and Directors’ Attendance Records” in this chapter.

The following is a summary of work performed by the Remuneration and Assessment Committee during the Reporting Period:

- reviewed and made recommendations to the Board on the remuneration of the Directors and senior management;
- reviewed and made recommendations to the Board on the Company’s policy and structure for the remuneration of Directors and senior management;
- reviewed the performance of duties of Directors and senior management of the Company and conduct annual performance appraisals on them;
- reviewed the Incentive Scheme and the Management Measures for Assessment for the Implementation of the Incentive Scheme, and the list of participants thereunder; and
- reviewed and made recommendation to the Board regarding the grant of incentive shares under the equity incentive scheme. While considering the grant of incentive shares, the Remuneration and Appraisal Committee had evaluated the remuneration of the grantee in comparable market peer and the value of grant to the grantee. After considering those factors, the Remuneration and Appraisal Committee recommended the proposed grant of incentive shares to the grantee to the Board for approval to appreciate the grantee’s devotion and commitment to the Company which align with the purpose of the equity incentive scheme.

Details of the remuneration payable to each Director for the year ended December 31, 2022 are set out in Note 8 to the financial statements.

The remuneration of the members of senior management by band for the year ended December 31, 2022 is set out below:

Remuneration bands (RMB)	Number of persons
1,000,000–10,000,000	1
0–1,000,000	1
Total	2

Directors' Remuneration Policy

The remuneration of Directors comprises an annual directors' fee and may also be entitled to options and/or awards under the rules of the share option scheme or share award scheme adopted by the Company from time to time. Such remuneration is determined and recommended by the Remuneration and Appraisal Committee with reference to the respective Directors' qualifications, industry experience, position and performance, and the prevailing market conditions. The Company makes contributions to social insurance and housing provident funds as required by the PRC laws and regulations.

Nomination Committee

The Company has established the Nomination Committee in compliance with the CG Code set out in Appendix 14 to the Listing Rules. The written terms of reference of the Nomination Committee are available on the respective websites of the Stock Exchange and the Company.

The primary duties of the Nomination Committee are to make recommendations to the Board regarding the appointment of Directors and Board succession. The Nomination Committee comprises one executive Director and two independent non-executive Directors, namely Mr. ZHANG, Dr. HUANG Yanlin and Dr. WU Yangfeng. Mr. ZHANG is the chairman of the committee.

During the Reporting Period, one Nomination Committee meeting was held. The attendance record of the committee members is set out in the section entitled "Board Meetings and Directors' Attendance Records" in this chapter.

The following is a summary of work performed by the Nomination Committee during the Reporting Period:

- assessed the independence of the independent non-executive Directors;
- considered and made recommendations to the Board on the election of a director, select and recommend candidates for directorship;
- reviewed the structure, size and composition of the Board diversity (including skills, knowledge and experience etc.); and
- reviewed the implementation and effectiveness of the Board Diversity Policy and the Directors' Nomination Policy.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board diversity policy, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background, ethnicity and length of service etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence (for appointment of independent non-executive Directors), and Board diversity aspects, where appropriate, before making recommendation to the Board.

The method and procedure for nomination of directors are stipulated in the Articles of Association.

Corporate Governance Report

Strategy Committee

The Company has established the Strategy Committee. The written terms of reference of the Strategy Committee are available on the respective websites of the Stock Exchange and the Company.

The primary duties of the Strategy Committee are to review and advise on mid to long term strategic positioning and development plans and to monitor the implementations of development plans. The Strategy Committee comprises one executive Director and two independent non-executive Directors, namely Mr. ZHANG, Mr. NG Kong Ping Albert and Dr. WU Yangfeng. Mr. ZHANG is the chairman of the committee.

During the Reporting Period, four Strategy Committee meetings were held. The attendance record of the committee members is set out in the section entitled “Board Meetings and Directors’ Attendance Records” in this chapter.

The following is a summary of work performed by the Strategy Committee during the Reporting Period:

- to study and make recommendations on strategic planning for long-term development of the Company;
- to study and make recommendations on major investment and financing plans that are required to be approved by the Board;
- to study and make recommendations on major capital operation and asset management projects that are required to be approved by the Board; and
- to study and make recommendations on other major matters affecting the development of the Company.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for performing the functions set out in code provision A.2.1 of the CG Code.

During the Reporting Period, the Board had reviewed:

- the Company’s policies and practices on corporate governance, compliance with legal and regulatory requirements;
- code of conduct and compliance manual (if any) applicable to employees and Directors;
- the Company’s compliance with the CG Code and disclosure in the Corporate Governance Report; and
- training and continuous professional development of Directors and senior management relating to the roles, functions and duties of a director of a company listed on the Stock Exchange.

BOARD MEETINGS AND DIRECTORS’ ATTENDANCE RECORDS

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Both the Nomination Committee and the Remuneration and Appraisal Committee shall meet at least once every year; and the Audit Committee and Strategy Committee shall meet at least twice a year.

Corporate Governance Report

A summary of the attendance record of the Directors at Board meetings, committee meetings and general meeting during the year ended December 31, 2022 is set out in the following table below:

Name of Director	Number of meeting(s) attended/Eligible to attend					Annual General Meeting
	Board	Audit and Appraisal Committee	Remuneration and Appraisal Committee	Nomination Committee	Strategy Committee	
Executive Directors:						
Mr. ZHANG Dalei	5/5	N/A	N/A	1/1	4/4	1/1
Mr. GAO Fei (<i>resigned on January 13, 2023</i>)	5/5	N/A	1/1	N/A	N/A	1/1
Dr. CHEN Yuzhong	5/5	N/A	N/A	N/A	N/A	1/1
Mr. CHEN Hailong	5/5	N/A	N/A	N/A	N/A	1/1
Ms. WANG Lin (<i>appointed on March 30, 2023</i>)	N/A	N/A	N/A	N/A	N/A	N/A
Non-executive Directors:						
Mr. CHEN Xin (<i>appointed on May 19, 2022</i>)	3/3	N/A	N/A	N/A	N/A	1/1
Mr. JIANG Bo (<i>resigned on May 19, 2022</i>)	2/2	N/A	N/A	N/A	N/A	1/1
Ms. WANG Mi (<i>resigned on January 13, 2023</i>)	5/5	N/A	N/A	N/A	N/A	1/1
Ms. ZHU Tingyao (<i>appointed on March 30, 2023</i>)	N/A	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors:						
Mr. NG Kong Ping Albert	5/5	3/3	1/1	N/A	4/4	1/1
Dr. WU Yangfeng	4/5	2/3	N/A	1/1	3/4	1/1
Dr. HUANG Yanlin	5/5	3/3	1/1	1/1	N/A	1/1

BOARD DIVERSITY POLICY

Pursuant to Rule 13.92 of the Listing Rules, the Nomination Committee (or the Board) shall have a policy concerning diversity of board members, and shall disclose the policy on diversity or a summary of the policy in the corporate governance report.

In order to enhance the effectiveness of the Board and to maintain the high standard of corporate governance, we have adopted the board diversity policy (the “**Board Diversity Policy**”) which sets out the objective and approach to achieve and maintain diversity of the Board. Pursuant to the Board Diversity Policy, we seek to achieve the diversity of the Board through the consideration of a number of factors when selecting the candidates to the Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural, educational background, ethnicity and length of service. The ultimate decision of the appointment will be based on merit and the contribution that the selected candidates will bring to the Board.

The Board targets to maintain at least the current level of female representation, with the ultimate goal of achieving gender parity. The Board will continue to take opportunities to increase the proportion of female members over time as and when suitable candidates are identified.

Corporate Governance Report

The Company has taken, and will continue to take, steps to promote gender diversity at all levels of the Company, including but not limited to the Board and senior management levels. In particular, Ms. WANG Lin, one of the executive Directors, Ms. BAI Huihui, one of the Supervisors responsible for overseeing business operations, and Ms. YANG Wenting, the chief financial officer responsible for the overall management of corporate finance and Board related matters, are female and form part of the Board, Board of Supervisors and senior management team. Going forward, the Company will continue to work to enhance gender diversity of the Board. The Board will use its best endeavors to appoint female Directors to the Board (keeping in mind the importance of management continuity and the timeline for retirement and re-appointment of Directors under the Articles of Association) and Nomination Committee will use its best endeavors and on suitable basis to identify and recommend multiple suitable female candidates to the Board for its consideration on appointment of a Director. The Company will also continue to ensure that there is gender diversity when recruiting staff at mid to senior level so that the Company will have a pipeline of female management and potential successors to the Board in due time to ensure gender diversity of the Board. The Group will continue to emphasize training of female talent and providing long-term development opportunities for female staff.

Directors have a balanced mix of knowledge and skills, including in biochemistry, software engineering, business development, investment management and corporate finance. They obtained degrees in various majors including biochemistry, clinical medicine, economics and business administration, among others. The Company has three independent non-executive Directors with different industry backgrounds, representing one third of the members of the Board. Further details on the biographies and experience of the Directors are set out on page 21 to page 25 of this annual report.

Nomination Committee is responsible for ensuring the diversity of the Board members, monitoring the implementation of the Board Diversity Policy and reviewing the Board Diversity Policy from time to time to ensure its continued effectiveness. The Company will disclose in corporate governance report about the implementation of the Board Diversity Policy on an annual basis.

NOMINATION POLICY

The Company has adopted the nomination policy which sets out the objectives, selection criteria and nomination procedures for identifying and recommending candidates for appointment or reappointment of Directors.

The Nomination Committee shall first review the structure, size and composition of the Board, assess the independence of independent non-executive Directors and then make recommendations to the Board on matters relating to the appointment of Directors.

When evaluating and determining the candidates of Directors, the Nomination Committee and the Board shall consider the following factors: personal characters; professional qualifications, skills, knowledge, and experience related to the Group's business and strategy; willing to devote sufficient time to fulfill the duties of the Directors and members of the Board committees; whether their appointment is in compliance with the requirements of the Listing Rules (including the independence requirements of independent non-executive Directors); whether their appointment is in compliance with the Company's Board diversity policy and any measurable targets adopted by the Nomination Committee to diversify the members of the Board.

WORKFORCE DIVERSITY

Among all the employees, (including senior management) of the Company, male employees accounts for 63.64% and female employees accounted for 36.36%. The Company believes that the gender ratio (male: female) in the workforce is within the reasonable range. The total gender diversity of the Group is balanced and the Group will continue to maintain the gender diversity in workforce.

Corporate Governance Report

For further details of gender ratio and initiatives taken to improve gender diversity together with the relevant data, please refer to the disclosure in the Environmental, Social and Governance Report.

BOARD INDEPENDENCE

The Company recognizes that Board independence is key to good corporate governance. The Company has in place effective mechanisms that underpin an independent Board to ensure independent views and input are available to the Board and such mechanisms will be reviewed by the Board as appropriate from time to time. The Board believes that the following mechanisms are feasible and effective:

- The current composition of the Board comprising one third of the independent non-executive Directors and the members of the Audit Committee are all independent non-executive Directors, exceeds the independence requirements under the Listing Rules. The Remuneration and Appraisal Committee and Audit Committee are chaired by independent non-executive Directors.
- The independence of each independent non-executive Director is assessed upon his appointment and annually. All independent non-executive Directors are required to submit a written confirmation to the Company annually to confirm the independence of each of them and their immediate family members, and their compliance with the requirements as set out in the Rule 3.13 of the Listing Rules.
- The remuneration of independent non-executive Directors is subject to a regular review to maintain competitiveness and commensurate with their responsibilities and workload.
- Directors are requested to declare their direct or indirect interests, if any, in proposals or transactions to be considered by the Board at the Board meetings and abstain from voting, where appropriate. External independent professional advice is available to all Directors, including independent non-executive Directors, whenever deemed necessary. The independent non-executive Directors have consistently demonstrated strong commitment and the ability to devote sufficient time to discharge their responsibilities at the Board.
- The Company has also established channels through formal and informal means whereby independent non-executive Directors can express their views in an open manner, and in a confidential manner, should circumstances requires.

ANTI-CORRUPTION POLICY

The Company does not tolerate any form of bribery, whether direct or indirect, by, or of, its Directors, officers, employees, agents or consultants or any persons or companies acting for them or on their behalf. The Company adopts the anti-corruption policy in assisting the employees in recognising circumstances which may lead to or give the appearance of being involved in corruption or unethical business conduct, so as to avoid such conduct which is clearly prohibited, and to promptly seek guidance if necessary.

The anti-corruption policy will be reviewed on a regular basis, any convicted cases will be reported to the legal and compliance department of the Company.

Corporate Governance Report

WHISTLEBLOWING POLICY

The Company expects and encourages employees of the Group and those who deal with the Group (e.g. suppliers, customers, creditors and debtors) to report to the Company, in confidence, any suspected impropriety, misconduct or malpractice concerning the Group. The Company adopts the whistleblowing policy to provide reporting channels and guidance on reporting possible improprieties and reassurance to whistleblowers of the protection that the Group will extend to them in the formal system.

The whistleblowing policy will be reviewed on a regular basis, any suspected cases will be reported to the legal and compliance department of the Company.

DIVIDEND POLICY

The dividend policy of the Company aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the Shareholders.

The declaration, form, frequency and amount of dividend paid by the Company must be in accordance with relevant laws and regulations and subject to the Articles of Association.

The proposal of payment and the amounts of dividends will be made at the discretion of the Board and will depend on the Company's general business condition and strategies, cash flows, financial results and capital requirements, the interests of the Shareholders, taxation conditions, statutory and regulatory restrictions, and other factors that our Board deems relevant. Any dividend distribution shall also be subject to the approval of the Shareholders in a Shareholders' general meeting.

All Shareholders are entitled the same right to receive dividends and distributions distributed by shares or cash. The Board will review the dividend policy as appropriate from time to time.

COMPANY'S CULTURE

The Board believes that corporate culture underpins the long-term business, economic success and sustainable growth of the Group. A strong culture enables the Company to deliver long-term sustainable performance and fulfil its role as a responsible corporate citizen. The Company is committed to developing a positive and progressive culture that is built on its Purpose, Vision and Mission.

During 2022, the Company continued to strengthen its cultural framework by focusing on the following:

- Vision: Provide high-quality healthcare services to everyone, aiming to make it as accessible as the air anytime and anywhere.
- Mission: Accessible and Affordable to Everyone
- Values: Treat Customers as God; Pursue For Excellence; Be Always Passionate

The Board sets and promotes corporate culture and expects and requires all employees to reinforce. All of our new employees are required to attend orientation and training programs so that they may better understand our corporate culture, structure and policies, learn relevant laws and regulations, and raise their quality awareness. In addition, from time to time, the Company will invite external experts to provide training to our management personnel to improve their relevant knowledge and management skills.

The Board considers that the corporate culture and the purpose, values and strategy of the Group are aligned.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Company recognizes that risk management is critical to the success of business. Key operational risks faced by us include changes in the general market conditions and the regulatory environment of the AI-based medical imaging market in China, the ability to develop and commercialize the Company's portfolio, and ability to compete with other AI-based medical device companies. The Company also faces various financial risks. In particular, the Company are exposed to credit, liquidity, interest rate and foreign exchange risks that may arise in the normal course of business.

The Company has adopted a consolidated set of risk management policies which set out a risk management framework to identify, assess, evaluate and monitor key risks associated with strategic objectives on an on-going basis. The Board is responsible for establishing internal control system and reviewing its effectiveness. The risk management department will prepare annual report at the beginning of each year identifying and assessing operation risks which will be submitted to general manager for review. The risk management department will then evaluate the implement of risk management procedures at the end of each year. During the Reporting Period, the Company regularly reviewed and enhanced internal control system. As of December 31, 2022, there were no material outstanding issues relating to the Group's internal control. The Company considers that Directors and members of senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control. The Board also believes that the internal control and risk management systems of the Company are adequate and effective.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems. The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the Reporting Period.

The Board, as supported by the Audit Committee as well as the management, annually reviewed the effectiveness of the risk management and internal control systems, including the financial, operational and compliance controls, for the Reporting Period, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

Corporate Governance Report

Internal Control

The Board is responsible for establishing internal control system and reviewing its effectiveness. The Company has an internal audit department with sufficient staff to ensure full and effective implementation and supervision of the Company. Below is a summary of the internal control policies, measures and procedures that the Company has implemented:

- adopted various measures and procedures regarding each aspect of operations, such as protection of data and internal information, inventory and outsourcing management, and IT system. The Company also regularly monitor the implementation of those measures and procedures.
- periodically review compliance status with all relevant laws and regulations with assistance from the legal advisors.
- established the Audit Committee which shall (i) make recommendations to the Board on the appointment and removal of external auditors; and (ii) review the financial statements and render advice in respect of financial reporting as well as oversee the risk management and internal control procedures of the Group.
- engaged a compliance adviser to provide advice to Directors and management team regarding matters relating to the Listing Rules. The compliance adviser is expected to, inter alia, ensure the use of the proceeds from the Global Offering complies with “Future Plans and Use of Proceeds” in the Prospectus and provide support and advice regarding the requirements of relevant regulatory authorities on a timely basis.
- maintained strict anti-corruption policies among sales personnel and distributors in sales and marketing activities. The Company has issued Anti-Corruption Management Regulations, which clearly define the key areas and key steps of anti-corruption function and the responsibilities and authorities of relevant departments in carrying out anti-corruption function.
- adopted various measures and procedures regarding treasury management, including but not limited to procedures of capital management, bank account management, financial budget preparation, and treasury payment.
- dedicated to cultivating a compliance culture among all of employees. To ensure such compliance culture is embedded into everyday workflow and set the expectations for individual behavior across the Group, the Company conducted regular internal compliance checks and inspections, adopt strict accountability internally and conduct compliance training.
- established four committees under the Board pursuant the corporate governance practice requirements under the Listing Rules, including the Audit Committee, Remuneration and Appraisal Committee, Nomination Committee and Strategy Committee.
- adopted internal protocols governing both the confidentiality and privacy for operational data and third-party data, covering data collection, data storage as well as data access.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2022.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

Corporate Governance Report

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 111 to 115 of this annual report.

AUDITOR'S REMUNERATION

Details of the fees paid or payable to the Company's auditors for the year ended December 31, 2022 are set out in the table below:

Services rendered for the Company	RMB'000
Audit services	3,200

COMPANY SECRETARY

Ms. SO Lai Shan ("**Ms. So**") from Vistra Corporate Services (HK) Limited, an external service provider, has been engaged by the Company as a joint company secretary. Another joint company secretary, Ms. YANG Wenting ("**Ms. Yang**"), the chief financial officer of the Company, acts as the primary contact person at the Company of Ms. So.

In compliance with Rule 3.29 of the Listing Rules, Ms. So and Ms. Yang have undertaken not less than 15 hours of relevant professional training to update her skills and knowledge during the Reporting Period.

SHAREHOLDERS' RIGHTS

Rights to Convene Extraordinary General Meeting

To safeguard Shareholders' interests and rights, the Shareholders are encouraged to participate at the general meetings of the Company and to vote thereat. An annual general meeting of the Company shall be held each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

The annual general meeting of the Company will provide a forum for the Board and the Shareholders to communicate. The Board will answer questions raised by Shareholders at the annual general meeting.

Pursuant to Article 72 of the Articles of Association, the general meeting shall be convened by the Board. If the Board is unable or fails to fulfill the obligation of convening the meetings of the general meeting, the Board of Supervisors shall convene such meetings. If the Board of Supervisors does not convene such meetings, the Shareholders individually or jointly holding no less than 10% of the Company's shares for no less than 90 consecutive days may convene such meetings on their own.

Independent Directors shall have the right to propose for an extraordinary general meeting to the Board. The Board shall give a written reply on agreeing or disagreeing to convene an extraordinary general meeting of Shareholders according to the provisions of the laws, administrative regulations, Listing Rules and the Articles of Association within 10 days after receiving a proposal put forward by independent Directors on convening an extraordinary general meeting of Shareholders. Directors will issue a notice to convene a Shareholders' general meeting within 5 days after making the resolution where it agrees to convene an extraordinary general meeting of Shareholders; where the Board disagree to convene an extraordinary general meeting, it shall explain the reasons and make a public notice.

Corporate Governance Report

Procedures for Putting Forward a Proposal at the General Meeting

Pursuant to Article 75 of the Articles of Association, when the Company convenes a general meeting, Shareholders individually or jointly holding more than 3% of the shares of the Company may submit an interim proposal in writing to the convener 10 days before the general meeting is held. The convener shall issue a supplementary notice of the general meeting within 2 days after receiving the proposal.

Unless it is prescribed by the preceding paragraph, the convener shall, after sending out a notice on the general meeting, not amend the proposal as mentioned in the aforesaid notice or add any new proposal.

Right to Put Enquiries to the Board

Shareholders and investors may send written enquiries or requests to the Company as follows:

Address: Room 21, 4th Floor, Building 2, A2 Yard, West Third Ring North Road, Haidian District, Beijing, PRC

Email: ir@airdoc.com

Tel: 8610-82362300

Enquiries will be dealt with in a timely and informative manner.

COMMUNICATION WITH SHAREHOLDERS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group's business performance and strategies. The Company recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The Company adopted the shareholders communication policy, which set out the framework the Company has put in place to promote effective communication with shareholders so as to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner. The shareholders communication policy will be reviewed on a regular basis by the Board.

The Company has established a range of communication channels between itself and its Shareholders, investors and other stakeholders. These include (i) the publication of interim and annual reports and/or dispatching circulars, notices, and other announcements; (ii) the annual general meeting or extraordinary general meeting providing a forum for Shareholders to raise comments and exchanging views with the Board; (iii) updated and key information of the Group available on the Company's website and the Stock Exchange's website; (iv) the Company's website offering communication channel between the Company and its stakeholders; and (v) the Company's H Share Registrar in Hong Kong serving the Shareholders in respect of all share registration matters.

The Company held its annual general meeting on May 19, 2022 (the "AGM"). All resolutions proposed at the AGM were passed. For details, please refer to poll results announcement of the Company dated May 19, 2022.

The Company also held its first extraordinary general meeting on November 10, 2022 (the "EGM"). All resolutions proposed at the EGM were passed. For details, please refer to poll results announcement of the Company dated November 10, 2022.

Corporate Governance Report

Having considered the multiple channels of communication and shareholders engagement in the general meeting held during the year, the Board is satisfied that the shareholders communication policy has been properly implemented during 2022 and is effective.

CHANGES IN CONSTITUTIONAL DOCUMENTS

During the year ended December 31, 2022, the Articles of Association has been amended at the 2021 annual general meeting held on May 19, 2022 and the 2022 first extraordinary general meeting held on November 10, 2022, and the latest version of the Articles of Association is available on the respective websites of the Stock Exchange and the Company. Details of the amendments, please refer to the Company's announcements on March 17, 2022 and October 10, 2022.

Apart from the above, there was no significant change to the constitutional documents of the Company for the year ended December 31, 2022.

Environmental, Social and Governance Report

ABOUT THE REPORT

The report (“**Report**”) is the second Environmental, Social and Governance (“**ESG**”) Report published by Beijing Airdoc Technology Co., Ltd. (hereinafter referred to as the “**Company**”, “**we**” or “**Airdoc**”). Prepared based on the principles of materiality, quantification and consistency, the Report gives a comprehensive overview of the Company’s management approach and performance in ESG from January 1, 2022 to December 31, 2022, with focus on issues of concern to internal and external stakeholders and the ways to reflect the economic, environmental and social sustainability. Unless otherwise stated, the information presented in the Report is the data recorded for the year 2022. The Report covers Beijing Airdoc Technology Co., Ltd. and its subsidiaries, which is consistent with the scope of this annual report.

Principles of Preparation

The Report was prepared in accordance with the following reporting principles:

Materiality: Material ESG issues were identified through materiality assessment and disclosed in the ESG report;

Quantification: Quantitative information on environmental and social areas was presented in the ESG report with explanation of its purpose and impact, and comparative data will be provided in subsequent annual ESG reports;

Consistency: The Report is our second ESG report, and we will use a consistent method to disclose ESG information in subsequent years to facilitate meaningful year-to-year comparisons.

Basis of Preparation

The Report was prepared in accordance with the requirements of the Environmental, Social and Governance Reporting Guide (the “**ESG Reporting Guide**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Access and Response to the Report

You can download the Chinese and English versions of the Report on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the Company’s website (<http://www.airdoc.com>). The Report is published in both Chinese and English. In the event of any discrepancy between the two versions, the Chinese version shall prevail. If you have any comments or suggestions on the Company’s ESG performance, please send an email to ir@airdoc.com.

ABOUT US

Founded in September 2015, Airdoc is an AI-based medical device company with an advanced platform of AI-empowered retina-based deep learning algorithms, and professional medical equipment design, R&D, registration and production teams, devotes to providing comprehensive and multi-faceted AI-based solutions for early screening and management on chronic diseases, and myopia prevention and control, which is a global market leader and pioneer in the field of AI-based retinal imaging. On November 5, 2021, Airdoc was successfully listed on the Stock Exchange (stock code: 2251) and became the first HK-listed medical AI company.

Environmental, Social and Governance Report

Airdoc-AIFUNDUS (1.0), our Company's AI SaMD product, was approved for the auxiliary diagnosis of diabetic retinopathy in August 2020, was the first of its kind to obtain the Class III medical device certificate from the NMPA. In order to meet the underserved healthcare needs, Airdoc has also developed a variety of pipeline products based on AI-empowered retinal imaging technologies. Through integrated solutions for software and hardware, we provide products and services such as AI-based SaMD, health risk assessment solutions, fundus cameras, as well as myopia prevention and control in various consumer healthcare scenarios. In terms of product commercialization, in addition to the coverage of various clinical department in the hospitals, the products are also sold to medical and consumer healthcare entities such as primary medical institutions, insurance companies, optometry centers and pharmacies. In 2022, we had detected approximately 4.3298 million cases in total via our SaMDs and health risk assessment solutions.

In 2022, the Company received the following external awards

Name of Award	Sponsor
National Specialized and New "Small Giant" Enterprise (國家級專精特新「小巨人」)	the Ministry of Industry and Information Technology of the PRC
2022 National Intellectual Property Advantageous Enterprise (2022年度國家知識產權優勢企業)	China National Intellectual Property Administration
Beijing "Specialized, Special New" Small and Medium-sized Enterprises (北京市「專精特新」中小企業)	Beijing Municipal Bureau of Economy and Information Technology
Beijing Science and Technology Progress Award	Beijing Municipal Bureau of Economy and Information Technology
Wu Wenjun Intelligent Science and Technology Award	Chinese Association for Artificial Intelligence
The Fourth Medical Equipment Innovative Qipu Award (第四屆醫療器械創新奇璞獎)	the Academy of China Healthcare Innovation Platform
2022 China Outstanding Enterprise IP Management Team (2022年度「中國傑出企業知識產權管理團隊」)	China Intellectual Property Annual Conference
Model Case of Beijing National AI Innovative Application Pilot Area (北京國家人工智能創新應用先導區示範案例)	Beijing AI Industry Innovation Base (北京市人工智能產業創新基地)
The Best Solution in the Medical Imaging Diagnosis Field (醫學影像診斷領域最佳解決方案)	Healthcare Industry jointly with CMIA (健康界聯合海南博鰲醫學創新研究院)
2022 China Portable Fundus Camera Market Leading Prize (2022年中國便攜式眼底相機市場領先獎)	Frost & Sullivan
2022 China Net • Technological Enterprise Vanguard List (2022中國網•科技企業先鋒榜)	China Internet Information Center (中國互聯網新聞中心)
The Most Innovative Enterprise for Consumer Healthcare in 2022 (2022年度中經大健康最具創新企業獎)	China Business Network (中國經營網)
"Annual Extraordinary Enterprise with Growth" on the 20th China Finance Annual Champion Awards (第20屆中國財經風雲榜「年度成長力優秀企業」)	Hexun (和訊)
"The Most Valuable Social Service Company" selected by the Seventh Annual Zhitong Caijing Listed Company (第七屆智通財經上市公司年度評選"最具價值社會服務公司")	Zhitong Caijing(智通財經)
2022 TOP50 Artificial Intelligence Leading Enterprise (2022年度人工智能領航企業TOP50)	QbitAI

Environmental, Social and Governance Report

BOARD STATEMENT

The Company recognizes the importance of good corporate governance and risk management processes, including the management of ESG matters that are critical to our sustainable development. We have established an ESG management system, including the ESG committee under the Board of Directors and ESG-related departments, to clarify the division of labour at all levels and to promote the implementation of ESG work. The ESG committee under the Board guides the sustainability direction of the Company, develops the overall vision, goals and management strategies for sustainability, and reviews the annual ESG report. The Report fully discloses the progress and outcome of the Company's ESG work in 2022. The Board and all directors of the Company confirm that there are no misrepresentations, misleading statements or material omissions in the Report.

Based on the external socio-economic macro environment and the Company's development strategy, the management team of the Company dynamically assesses the importance of ESG issues, discusses and determines the risks and opportunities in environmental, social and corporate governance, and regards the management and improvement of key issues as annual strategic work for sustainable development, carries out management on ESG plans and targets, and monitors ESG performance. In the materiality assessment of ESG issues, we found that R&D and innovation, intellectual property rights, information security and privacy protection, product quality and after-sales service support, community public welfare, staff caring and welfare, employee development and training were the top ESG issues that internal and external stakeholders paid close attention to. Based on this, the Company focuses managing resources and clarifies the priorities of disclosure.

The Company strictly protects user privacy, encourages innovation in product R&D which is also driven by user needs and guided by market trend, strictly controls product quality, and values customer service management. Adhering to the principle of mutual benefit and win-win cooperation, we actively integrate and share the advantageous resources in the industry, and form a community with various stakeholders to seek profits for shareholders, seek values for customers, share the results of corporate development with employees, and benefit the society.

In addition, we are also keenly aware of the opportunities and challenges brought by increasingly tightened regulations and the trend of green, safe and sustainable development. In the future, we will adjust our management strategies, ways and approaches to promote sustainable development according to the expectations of stakeholders and our actual operations, aiming to continuously improve our sustainability level.

SUSTAINABILITY MANAGEMENT

Since the United Nations World Commission on Environment and Development proposed the concept of "sustainable development" in 1987, sustainable development has become an issue closely related to every enterprise and individual. Since our establishment, the Company has been adhering to the business philosophy of common development of economy, society and environment, promoting sustainable business practices and fulfilling corporate social responsibilities, in order to better grasp the opportunities brought by the development of the industry.

Environmental, Social and Governance Report

Stakeholder Engagement

The Company fully considers and effectively responds to the expectations and demands of stakeholders, and works with stakeholders to promote social development and shares development achievements.

Stakeholders	Stakeholder expectations	Communication and participation mechanism	The Company's responses
Investors	<ul style="list-style-type: none"> • Increase in Company's market cap and profitability • Continuous improvement of the Company's performance in environmental and social responsibility 	General meetings, information disclosure, and the Company's website	<ul style="list-style-type: none"> • Regularly publishing reports, truthfully and fully disclosing information, and striving to improve performance and creating profits • Improving the Company's governance and risk management level, holding general meetings, strengthening investor relations management, and striving to improve environmental and social responsibility management
Customers	<ul style="list-style-type: none"> • Excellent product quality • Protection of legitimate rights and interests 	Signing of contracts and agreements, and customer satisfaction surveys	<ul style="list-style-type: none"> • Providing high quality products and services • Establishing perfect customer service system and customer feedback and complaint mechanism
Employees	<ul style="list-style-type: none"> • Ensuring employee compensation and benefits • Care for employee safety and health • Providing equal promotion and development opportunities • Improving communication mechanism and participating in corporate management 	Labour contracts and employee satisfaction surveys	<ul style="list-style-type: none"> • Strictly abiding by the terms of labour contracts, and improving the compensation and welfare system • Providing a safe and healthy working environment • Offering employee development channels and organizing employee training • Providing equal communication channels

Environmental, Social and Governance Report

Stakeholders	Stakeholder expectations	Communication and participation mechanism	The Company's responses
Government	<ul style="list-style-type: none"> Operating in compliance with rules, laws and regulations, and implementing national policies 	Attending government-related meetings	<ul style="list-style-type: none"> Strictly abiding by relevant laws and regulations, continuously strengthening compliance management and responding to relevant national policies
Suppliers	<ul style="list-style-type: none"> Cooperating in an honest, fair and just manner to achieve mutual benefit and win-win results and promote industry development 	Signing contracts and agreements, and holding bidding and supplier meetings on a regular basis	<ul style="list-style-type: none"> With business principles of openness and transparency, actively fulfilling contracts and agreements, implementing an open and transparent procurement model, and creating a responsible supply chain
Peers	<ul style="list-style-type: none"> Fair competition, honest cooperation, transparent and open information Following industry norms and promoting industrial innovation 	Communicating with industry-related research institutes, associations and mainstream media	<ul style="list-style-type: none"> Strengthening exchanges and cooperation with peers to jointly create a healthy and orderly competition environment Engaging in industrial innovation and research, pursuing mutual benefit and win-win results, and common progress, participating in industry evaluation, and providing suggestions for industry standardization

Environmental, Social and Governance Report

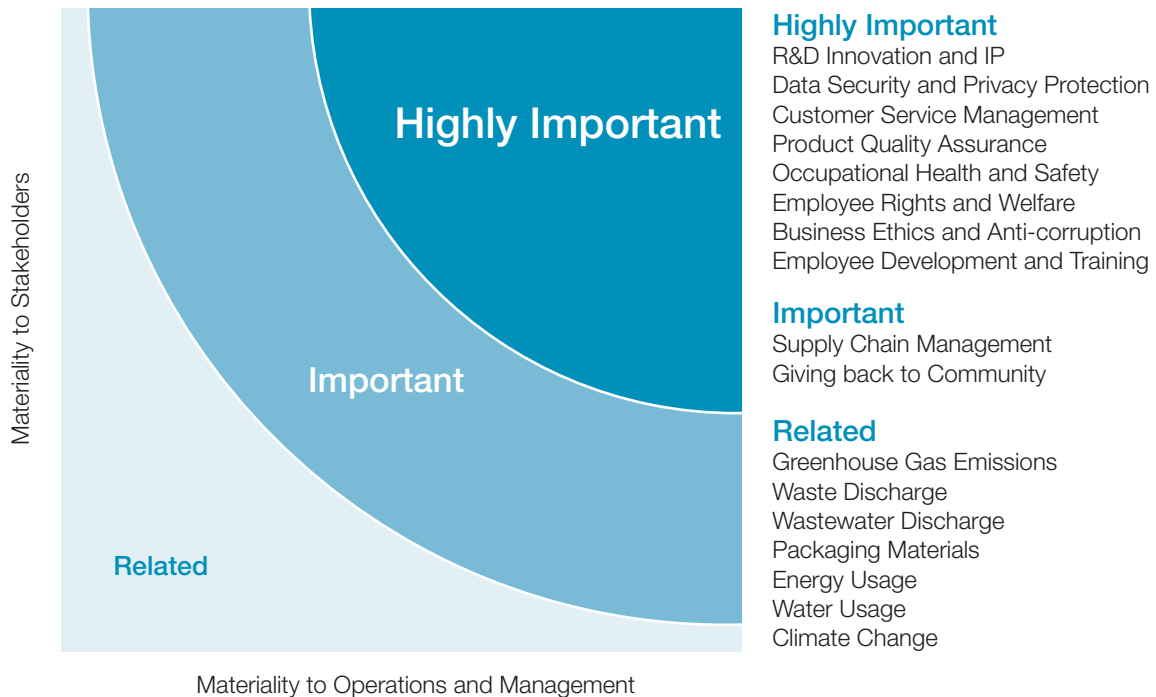
Materiality Assessment

In accordance with the Stock Exchange's ESG Reporting Guide and the Global Reporting Initiative's materiality analysis procedures, the Company collected issues of concern to major stakeholders through such forms as questionnaires and interviews. A materiality analysis was conducted to prioritize and identify the Company's material environmental, social and governance issues that were disclosed in the Report.

Materiality Assessment Process

- 1) ESG issues relevant to the Company were identified through analysis of the Stock Exchange's ESG Reporting Guide and issues disclosed by peers;
- 2) Key stakeholders were invited to assess the importance of identified issues. Internal stakeholders mainly assessed the issues from the perspective of the Company's long-term development strategy, management improvement, urgency of investment and competitive advantage, while external stakeholders mainly considered the evaluation of the Company and the influence of decisions and the influence on their interests. The results of assessment by internal and external stakeholders were integrated to create an initial materiality matrix;
- 3) The management of the Company reviewed the priorities of the issues and reported them to the Board for review;
- 4) After the Reporting Period, the Company will invite internal and external stakeholders to give feedback on the contents of the current report to prepare for the next report.

Materiality Matrix



Environmental, Social and Governance Report

R&D INNOVATION

The Company encourages innovation in product R&D which is also driven by user needs and guided by market trend. Through the whole-process development and management, we achieve rapid product development, accurate positioning and cost-effectiveness to cater to the commercialization of products. The Company is an AI-based medical device company with an advanced platform of AI-empowered retina-based deep learning algorithms, and teams dedicated to professional medical R&D and registration, as well as design and production of medical devices. Riding on our unique advantages, we lead the rapid development of the AI-based medical imaging industry through innovation and R&D, while creating value for the society and actively fulfilling our social responsibilities as we capture market opportunities.

Leading Advantages

As the AI-based medical imaging industry continues its rapid growth, by utilizing our product portfolio and technology platform, we are leading the development of the industry with the following advantages.

- Integrated software and hardware solutions which allow us to integrate hardware, software, algorithms and services together as a full suite of total solution for our customers;
- In-house developed AI algorithms with broad applicability;
- Comprehensive and high-quality retinal image database;
- Strong R&D team with full-spectrum expertise;
- Close collaboration with KOLs and major hospitals;
- Multi-channel commercialization which allows us to further enrich our real-world user retinal image database, creating a feedback loop to further optimize existing algorithms and develop new algorithms;
- Independent plants with mass production capacities to meet the needs of commercial market;
- Close alignment with regulatory requirements which allows us to have a finger on the pulse of regulatory developments and changes and at the same time lead the development of the industry.

During the Reporting Period, we further developed new and optimized existing algorithms to enhance screening efficiency, improve diagnosis accuracy and cover more health risks while reducing cloud computing costs. We also upgraded our hardware devices in a comprehensive manner, which integrates enhancements to hardware, algorithms, software and product solutions. We continued to enhance the stability, automation and intelligence of the devices along with the reduction in costs of the devices; meanwhile, the data acquisition dimension and health risk analysis capabilities of the devices were expanded through technological innovation.

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Product Portfolio

To address the largely unmet medical needs of the early detection and diagnosis of chronic diseases, we have developed our AI-empowered retina-based early detection, diagnosis and health risk assessment solutions that target a wide range of diseases and lesions. Our product portfolio includes SaMDs for detection and diagnosis, health risk assessment solutions and hardware devices, forming an integrated solution of AI-based software and hardware solutions.

- **SaMDs for detection and diagnosis.** The Company has three versions of Airdoc-AIFUNDUS in the product portfolio. Airdoc-AIFUNDUS (1.0), an AI-based SaMD approved for the auxiliary diagnosis of diabetic retinopathy, was the first of its kind that obtained the Class III medical device certificate from the NMPA, enabling it to be used in hospitals in China to assist physicians in diagnosing diabetic retinopathy. Airdoc-AIFUNDUS (2.0) is designed for the auxiliary diagnosis of hypertensive retinopathy, retinal vein occlusion and AMD, and is the first domestic AI-based auxiliary diagnostic medical device software covering multiple indications. Clinical trials for the product had been completed in September 2022, delivering excellent data results. Airdoc-AIFUNDUS (3.0) is designed for the auxiliary diagnosis of pathological myopia and retinal detachment. In the meantime, the Company has a product pipeline of seven other SaMDs covering indications which include glaucoma, cataracts, ICVD and ASCVD, gestational diabetic retinopathy, gestational hypertensive retinopathy, papilledema intracranial hypertension retinopathy and anemia;
- **Health risk assessment solutions.** The Company provides health risk assessment solutions with the ability to detect health risk indicators in a wide range of healthcare environments including health checkup centers, community clinics, insurance companies, optometry centers and pharmacies. Our comprehensive product pipeline can not only provide solutions for various medical institutions, but also can be widely used in consumer healthcare environments;
- **In-house developed fundus cameras.** The Company has three in-house developed fundus cameras, namely AI-FUNDUSCAMERA-P, AI-FUNDUSCAMERA-D and AI-FUNDUSCAMERA-M, which can be compatible with our SaMDs for auxiliary diagnosis and health risk assessment solutions. Our AI-FUNDUSCAMERA-P is a portable, automatic and self-service fundus camera, for which it received a Class II medical device registration certificate in March 2021. Our AI-FUNDUSCAMERA-D is a fully automatic and fully self-service desktop fundus camera with comparable image quality but significantly lower costs than traditional high-end desktop fundus cameras. It obtained a Class II medical device registration certificate from the Shanghai branch of the NMPA in July 2022. Our AI-FUNDUSCAMERA-M is a multimodal health scanner integrated with more biosensors that enable it not only to capture retinal images but also other physiological data, such as electrocardiograms, blood oxygen and blood pressure. The collection of multimodal physiological data serves as the foundation of our AI-based health risk assessment solutions;
- **Myopia treatment device designed for myopia prevention and control.** Our myopia treatment device can be used to treat pseudomyopia, assist in the treatment of mixed myopia and refractive myopia, and prevent true myopia through the combination of 650nm red light and eye muscle training. Myopia treatment device was approved and the Class II medical device registration certificate has been obtained from Beijing Municipal Medical Products Administration.

Environmental, Social and Governance Report

Strong R&D Capabilities

The Company has been R&D-driven since inception. We have profound knowledge in AI deep learning algorithms, unparalleled scale of retinal image database, mature AI engineering infrastructure; comprehensive innovation team involving optics, machinery, electronics and systems in terms of R&D of devices; strong supply chain integration capability and mass production experience in medical device manufacturing; coupled with the professional medical R&D registration team, which ensures the rapid commercialization of services and algorithms. All these advantages form the backbone of our success.

- **Powerful AI deep learning algorithms.** The Company's research and development goal for algorithms is to apply the Company's understanding of diseases and lesions to develop powerful AI deep learning algorithms that can accurately detect and diagnose a wide range of chronic diseases. The Company has focused on expanding the breadth and depth of our algorithms, with a forward view towards future industry trends and needs;
 - To optimize our AI deep learning algorithms, we have developed a broad range of algorithms for disease classification, lesion detection, lesion segmentation and health risk assessment, which work together to deliver highly accurate analysis results. The Company has developed more than 90 AI deep learning algorithms serving real-world customers, which are supported by a robust IP portfolio;
 - With the aim to remain in the vanguard of algorithm engineering and deep learning technologies in the medical AI field, we are developing more advanced or new algorithms, such as network architecture search, generative adversarial networks, domain adaptation, model generalization, multi-task learning, unsupervised learning and online learning, which enables us to further optimize the deep learning algorithms;
 - In addition, we are developing highly valuable novel algorithms and models for new applications, such as long-term health risk assessment algorithms, time sequence medical image registration and analysis system and clinical and economic data-based medical AI model performance evaluation engines, which we believe will significantly benefit patients with chronic diseases in the future.
- **Robust retinal image database.** The Company has developed a robust databases of retinal images through research collaboration and serving a wide range of customers across China. Our database includes real-world user retinal images with their corresponding multimodal data, cross-labelled by hundreds of medical experts, enabling the Company to perform more in-depth medical AI research and development and to build and enhance our AI deep learning algorithms;
- **Highly efficient and mature AI engineering infrastructure.** The Company has established a highly secure and efficient private data lake system to store large and varied data sets, a big data analytic system to gain insight into the data and a data syncing system to reliably and efficiently sync data from different sources to the data lake system. We also have a powerful AI algorithm training system, which uses deep learning training frameworks to develop deep learning algorithms. We built deep learning model upon what deep learning algorithms have learned from the data and trained deep learning models using a massive amount of data. Our training system was built to support five different machine learning frameworks and six programming languages to facilitate the development of our AI algorithms and address various pain points in algorithm optimization. Due to the complexity of analyzing a wide range of diseases and lesions, we have also developed a highly efficient and comprehensive online deep learning inference system to support synchronistic computing across over 300 deep learning model instances, optimize the use of data and computation resources and streamline our deep learning model optimization, protection, deployment, management and monitoring. The deep learning model is used in its online inference system to analyze medical images;

Environmental, Social and Governance Report

- **A comprehensive innovation team involving optics, mechanics, electronics and systems.** The team conducts comprehensive innovation in technology research and development, design and manufacturing in the fields of optics, mechanics, electronic technology and system science. In addition, the team has expertise in a wide range of research areas and extensive practical experience, enabling it to quickly respond to market demands, provide innovative products and services as well as enhance its industrial competitiveness;
- **A professional medical R&D registration team.** The team is composed of senior medical clinical registration experts and top algorithm engineers, who have many years of experience in medical R&D and clinical registration, and are proficient in technical progress and market demands in the medical field, able to quickly respond to customer needs, and to formulate scientific and reasonable R&D clinical registration and commercialization plans for medical products.

Authoritative Scientific Papers

The Company has been devoted to scientific research innovation and professionalism, and has collaborated with numerous renowned medical research institutions, with joint research results published in a number of authoritative scientific journals, including the Lancet series, the Science series, the Nature series, the Cell series, British Journal of Ophthalmology and British Journal of Dermatology and other prestigious peer-reviewed scientific journals. To date, the Company have authored more than 50 scientific papers.

- In January 2022, in collaboration with the team led by Prof. Wu Yangfeng from the Peking University Clinical Research Institute, we published an AI prediction system for cardiovascular and cerebrovascular risk identification based on fundus imaging in the internationally renowned journal Science Bulletin (impact factor IF 20.58), realizing a non-invasive and high-precision cardiovascular and cerebrovascular risk identification solution based on fundus imaging (Sci. Bull., 2022, 67(1)).
- In May 2022, we co-authored a research paper with Beijing Tongren Hospital Eye Center (北京同仁醫院眼科中心) in The JAMA Network Open regarding the performance of Retinal Artificial Intelligence Diagnosis System (the "RAIDS") in detecting and screening 10 retinal diseases (diabetic retinopathy, glaucoma, macular hole, epiretinal membrane, hypertensive retinopathy, retinal myelinated nerve fibres, retinal pigment degeneration, age-related macular degeneration, retinal vein occlusion and pathological myopia). The results showed that RAIDS achieved a sensitivity of 89.8% to detect any retinal disease as listed above and differentiated 10 retinal diseases with accuracy rates ranging from 95.3% to 99.9%. Compared with human retinal specialists, RAIDS demonstrated higher sensitivity for detecting retinal abnormality and greater efficiency in assessing retinal images.
- In July 2022, we were granted the Wu Wenjun Intelligent Science & Technology Award (2021), the highest AI award in China, for the second time since 2019. This makes us the first domestic medical AI company receiving this award twice.
- In October 2022, together with West China Hospital of Sichuan University and Chengdu iKang Guobin Healthcare Center, we published a R&D finding in Eye, a journal under Nature. The achievement is about the innovative development and validation of an AI algorithm model designed to distinguish fundus photos of RVO patients from normal people. This model could become a powerful tool for predicting the risk of RVO and other cardiovascular and cerebrovascular diseases in the future.

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- In November 2022, we took the lead in and completed the project “Research and Development of Fundus Image Artificial Intelligence Recognition and Its Application in Blinding Eye Disease and Cardiovascular Risk Assessment” with Zhongshan Eye Center of Sun Yat-sen University (中山大學中山眼科中心), Beijing Tongren Hospital affiliated to Capital Medical University (首都醫科大學附屬北京同仁醫院), Peking University and Beijing Tsinghua Changgung Hospital (北京清華長庚醫院), which awarded the second prize of the 2021 Beijing Science and Technology Progress Award.
- In December 2022, we participated in a research conducted by a researcher team led by Xie Wuxiang at Peking University Clinical Research Institute, the result of which was published, in the top international journal Age and Ageing (IF: 12.782, ranked first in geriatric journals) in the field of geriatrics. It is the world’s first study that combines AI technology with retinal image to identify people at high risk of dementia. We participated in the research and provided strong technical support and guarantee for the smooth progress of the research.

Integrated Software and Hardware Solutions

The Company is one of the few in the industry that have in-house developed image analysis technology as well as image capture technology, which enables us to offer highly integrated and end-to-end optimized solutions that seamlessly combine software and hardware with better user experience and higher accuracy. The Company has three in-house developed proprietary and fully automated fundus cameras that are easy to use and easy to manage. The Company’s hardware devices significantly lower the barriers for physicians to offer eye screening and are applicable in multiple medical and consumer healthcare environments. Our hardware devices are powered by on-device AI technologies such as speech recognition, speech synthesis and computer vision and can successfully address pain points of existing fundus cameras on the market at a fraction of the cost, making our products more affordable to various healthcare environments.

By offering software and hardware as a bundle, the Company provides integrated healthcare solutions that improve user experience, and allow seamless end-to-end performance and a cost-effective option. Our integrated solutions also enable us to optimize our portfolio from data collection, data transmission, data analysis and result reporting to realize its full potential. For example, we are able to control many imaging parameters in the hardware to ensure that the image is ideal to be processed and analyzed by our AI deep learning algorithms.

In 2022, we upgraded our hardware devices in a comprehensive manner, integrating enhancements to hardware, algorithms, software and product solutions, continuously improving the stability, automation and intelligence while reducing costs of devices. Meanwhile, we expanded the data collection dimension and health analysis capability of devices through technological innovation.

AI Deep Learning Algorithms

AI technology features high speed, cost-efficiency, accuracy and scalability, which can solve issues of imbalanced allocation of medical resources and shortage of experienced physicians. The Company is one of the first to provide AI-empowered retina-based early detection, diagnosis and health risk assessment solutions in China. With retinal imaging, multimodal data analysis and AI deep learning algorithms, the Company’s solutions differ from the traditional early detection and diagnosis of chronic diseases, enabling a non-invasive, accurate, fast, effective and scalable detection, diagnosis and health risk assessment of chronic diseases for whole population in both medical institutions and consumer healthcare environments.

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Deep learning is a learning method that automatically learns features of the target. The principle of deep learning is achieving the identification and prediction of specific learning targets, such as the early detection and diagnosis of chronic diseases based on images, by mimicking the neuronal connections of the human brain. The development of our deep learning algorithms involves two major phases: design and training. Design is to build the architecture of the computation network, including the number of layers, number of nodes in the layers and connectivity among nodes. However, designing the architecture does not determine the internal parameters of the computation network, such as how much the algorithm amplifies, suppresses or mixes a signal in the network. Training is where we decide the values of those parameters by learning from human-labelled training data. In training, training data such as retinal images are first labelled as different classes, such as being healthy or having diabetic retinopathy, by human experts as ground truth labels. Next, the computation network runs a forward pass through the data, predicting labels for the training data. Such predictions are then compared against the ground-truth labels in the data, and an error signal is generated through a loss function. This error is then propagated back through the network, and parameters are adjusted using a chosen optimization algorithm in order to reduce the same error in the future. This training process must be repeated many times until a good or good enough set of parameters is discovered. After training, the parameters are fixed and the computation network with fixed parameter values becomes the final deep learning model, which would be used in deep learning inference. Deep learning inference is where a trained deep learning model is used to process input data such as retinal image, compute and make a prediction and decision such as whether the input image shows diabetic retinopathy. Unlike training, the inference stage does not include back-propagation and parameter-tuning. In this stage, the deep learning model is deployed to make identification or predictions on real-world data.

Applications of deep learning in retinal image analysis include disease classification, lesion detection, lesion segmentation and health risk assessment. Considering the complexity of the problems, the Company has developed more than 90 deep learning algorithms to cover a comprehensive range of diseases, lesions and health risks. The training process involves feeding algorithms the retinal images labelled by medical experts, computing the predicted result using its computation network, comparing the predicted results with human labels and adjusting the parameters to minimize prediction errors. After being exposed to numerous labelled retinal images, the algorithm generalises and learns to predict certain chronic diseases accurately using a computation network which represents the mathematical relationships between input data and predicted results.

Intellectual Property Management

In accordance with the Patent Law of the PRC, the Trademark Law of the PRC and the Copyright Law of the PRC, the Company continuously strengthens the awareness of independent intellectual property rights, and clarifies the standards and procedures for the creation, application, management and protection of intellectual property rights. In order to strengthen and standardize the overall management of intellectual property rights and elevate the important status and role of intellectual property rights in the course of development. The Company has set up the intellectual property department for the purpose of comprehensive intellectual property management, and formulated the Intellectual Property Management Measures (Trial) in accordance with China's laws and regulations on intellectual property rights and based on the actual situation of the Company. All departments shall timely communicate with the intellectual property department or report or give feedback to the person in charge of the department for any intellectual property matters or problems involved in practical work, and cooperate with the department to take active measures to deal with or solve them. The Company advocates, encourages and insists on independent innovation, while encouraging employees to create patents, trademarks and computer software according to business needs as well as to declare them in time. In order to encourage inventions and improve employees' enthusiasm for technological innovation, the Company will reward employees who have made substantial contributions to service inventions (including inventions, utility models and designs) after filing patent applications for the service inventions.

Environmental, Social and Governance Report

In 2022, the Company's intellectual property department mainly conducted the following work:

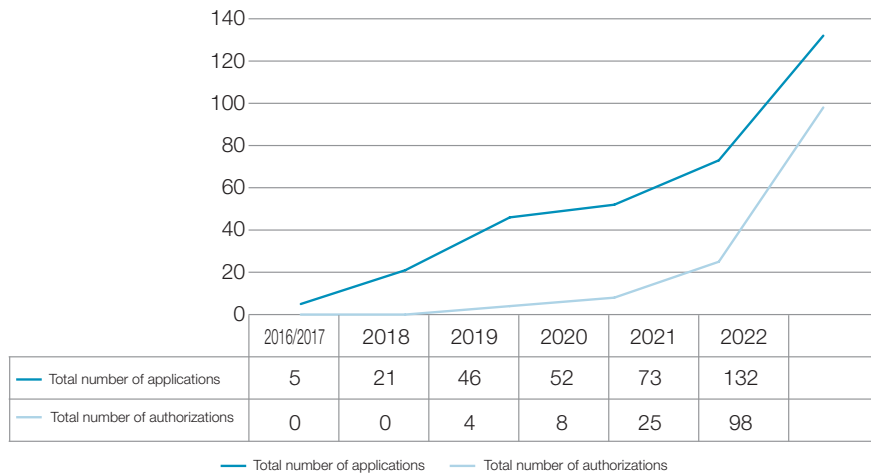
- Responsible for periodically collecting the intellectual property needs of all departments, formulating the Company's intellectual property strategy, relevant regulations and work plans on intellectual property management according to the needs of all departments and the development strategy of the Company, and promoting the implementation;
- Responsible for organizing intellectual property training for R&D staff, marketing staff and others, and raising their intellectual property awareness;
- Responsible for intellectual property mining and planning, aiming to enhance the competitiveness of the Company with high-quality intellectual property rights;
- Responsible for the establishment of an intellectual property management system and the scientific and information-based management of the Company's intellectual property;
- Responsible for collecting and understanding the latest information on national intellectual property legislation and policies, monitoring the intellectual property trends of industries at home and abroad, and the intellectual property situation of markets and competitors at home and abroad, and periodically providing the latest information to provide reference for the Company's development decisions;
- Responsible for working with the CTO to carry out patent navigation analysis according to the importance of the project, technology route, etc. to assist the Company in decision-making and strategic orientation. Responsible for conducting patent assessment prior to project launch, as well as third party infringement risk screening and assessment throughout the process of project launch, MRD, R&D, Demo, online testing and official launch, and proactively avoiding using such design and reducing infringement risk. Responsible for conducting intellectual property due diligence to ensure the value and quality of intellectual property assets when the Company goes public, acquires or invests in third-party businesses, in cooperation with external partner organizations.

During the Reporting Period, the Company has made a number of achievements in the creation, application and management of intellectual property.

As of December 31, 2022, the Company owned 329 patents and patent applications, including 135 issued patents and 194 patent applications in China, and 12 PCT applications, of which 94 patents and patent applications and 2 PCT applications are related to our principal business products or services, covering the structure, components, functions, applications, manufacturing processes, and many other aspects of the Company's principal business products-fundus cameras, as well as the structure, underlying algorithms, optimization algorithms, application modules of AI-based retinal imaging solutions, the principal business. The Company also owned 64 issued software copyrights, 174 registered trademarks. The main trademarks “鹰瞳” and “Airdoc” cover all trademark categories and were fully protected, and have also been registered in the United States, Europe, Japan and other overseas countries and regions. In 2022, there were 132 new patent applications in China, 4 PCT international applications and 98 new issued patents.

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Overview of domestic patent applications and authorizations



In terms of intellectual property protection, the Company integrates the intellectual property modules into the induction training of the new employees and includes it in new employees orientation assessment system. We focus on introducing the basic information of intellectual property to employees, the current status of the Company's intellectual property and the importance and significance of intellectual property protection to the development of the Company. The Company regularly conducted intellectual property training for R&D staff, mainly introducing the importance of R&D staff in intellectual property protection, and how R&D staff integrate intellectual property protection into R&D work to better protect R&D innovation results and participate in intellectual property protection. Moreover, the Company discussed the product R&D progress with R&D teams from time to time, and mined intellectual property rights. The Company has entered into confidentiality, non-compete and intellectual property ownership agreements with our employees.

Based on the work results in intellectual property rights, the Company won several honors, including 2022 National Intellectual Property Advantage Enterprise and Beijing Intellectual Property Pilot Unit" (北京市知識產權試點單位). The intellectual property department won the honors of Outstanding Enterprise Intellectual Property Management Team in China (中國傑出企業知識產權管理團隊) of the year 2022. The AI-based Fundus Chronic Disease Screening and Health Assessment project with "fundus camera and fully automatic shooting method of fundus images" as the core patent won the China-Haidian Most Potential Award in High-value Patent Incubation Competition" (2022中國•海澱高價值專利培育大賽最具潛力獎).

RESPONSIBLE OPERATIONS

Information Security and Privacy Protection

Great importance has been attached to information security management. The Company has formulated and implemented nearly 40 policies and systems to ensure information security management, such as General Outline of Information Security Management System, Management Measures for Security Risk Assessment, Data Backup Management System, and Inspection and Assessment Management System. During the Reporting Period, the Company strictly abode by the abovementioned policies and systems, and supplemented and developed two systems, namely the Management Measures for Data Confidentiality (《數據保密管理辦法》) and Management Measures for Usage of Communication Tools (《通訊工具使用管理辦法》).

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There was no change in our user agreement and privacy policy during our provision of AI-based solutions. Our collection and use of personal information of users, mainly their retinal images, directly or through our business partners, are subject to expressed consent and authority from users. We have entered into agreements with our business partners, which include the term that such business partners should be responsible for obtaining authority and consent for the collection, utilization and storage of their retinal images. We do not own the data collected from individuals directly or through our business partners but enjoy certain utilization rights in relation to such data such as using and analyzing such data for algorithm development, supporting diagnosis of diseases and relevant assessment on health risks, which are protected by the relevant PRC laws and regulations. Regarding the individuals' personal information we collected:

- We had obtained consent before collecting individuals' personal information;
- We used such individuals' personal information consistently with the consents obtained;
- We have adopted various measures to protect such data from misusing, leaking and attacking.

We have adopted various measures to ensure our compliance with the applicable data privacy and protection laws and regulations in the PRC. We have established strict data protection policies to ensure that the collection, use, storage, transmission and dissemination of data are in compliance with applicable laws and prevalent industry practice. All of the retinal images in our database have infinite life cycles and will not be deleted. Except for that, we also have retinal images stored in another temporary data storage system that are carried with a life cycle set by our business partners which generally ranges from one day to one year and will be deleted in due course upon our business partners' requests. For these retinal images that have been set with a life cycle by our business partners, we are able to conduct further research and development work through online learning. In online learning, we can leverage data with life cycle to improve our algorithm. Such deleted data will not be used and cannot be used in our training of algorithms going forward since they have been completely deleted from our system. However, such life cycle management did not and will not have a material impact on our training of algorithms as we already have a large, comprehensive, and high-quality retinal image database which includes real-world user retinal images with their corresponding multimodal data. To achieve our goals towards data protection, we adopt advanced technologies which ensure the implementation of data protection policies. We have developed systems and a data safe house structure in accordance with the relevant data protection laws and regulations to ensure the data are well protected and can only be used under the restricted circumstances as set out in our internal policies. We also enter into confidentiality agreements or clauses with our employees or third-party business partners to protect data privacy.

During the Reporting Period, in order to ensure information security, the Company carried out the following work:

- We established a dedicated internal review committee for data security, which is composed of R&D head of data group, head of legal affairs and head of HR;
- According to the regulations and policies in respect of information security and data promulgated by the state, and taking into consideration the Company's operation, we further improved the information security system, developed the Management Measures for Data Confidentiality and Management Measures for Usage of Communication Tools, sent email notification to all staff in this regard, and organized regular training, sharing and examination;
- We organized a safety appraisal meeting once a month concerning hardware R&D, edge intelligence algorithm, cloud-based service development, database management, operation and maintenance service, the Company's IT desktop and other aspects, discussed the safety upgrade and repairing in the current month, formulated further upgrade plans, and assigned dedicated person for implementation;

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- We engaged security specialists for safety troubleshoot on office network, data center and cloud-based service, kept a close eye on safety incidents in the industry, so as to discover and repair in a timely manner;
- We invited the third-party professional security team for all-round regular exhaustive tests on office network, data center, and cloud-based service, and continued to upgrade and optimize.

During the Reporting Period, there was no data leakage in the Company.

In the future, the Company still strictly implements the existing policies and regulations, will pay close attention to the legislative and regulatory developments in data security, and conduct training and formulate compliance programs based on the latest legislation and law enforcement cases, so as to keep abreast of and meet the latest regulatory requirements.

Customer Service Management

The Company has established a market-and-customer-oriented management system, which encompassing customers classification, customers relationship management, customers loyalty management and customers maintenance, and has continuously perfected relevant mechanisms and various business operation procedures according to business developments and changes in internal and external environments, striving to achieve the effective utilisation of customer resources, increase sales opportunities and sales volume, reduce operation costs, improve service quality, increase customer satisfaction, and so as to build long-term stable and friendly relationships with customers and improve our goodwill.

After-sales Services Support

The Company provides after-sales services including customer service and technical support, in order to ensure the products and services are collectedly used due to their particularity. Customers can contact, file complaints and get support through the customer service hotline. During the Reporting Period, the Company received no significant customer complaints.

With the aim to ensure the quality of after-sales services and user experience, we provide training sessions to customers and solution implementers through sales and marketing staff, who follow up the implementation after provision of solutions, gather feedback on solutions and provide after-sales support. Before providing after-sales services, sales and marketing staff are required to pass 31 internal exams, including those about product usage procedures and technical support.

Upon launching new products, the Company will conduct extensive training for sales and marketing staff to ensure that they can provide high-quality after-sales services. The sales and marketing staff responsible for providing training and operational support on the use of SaMDs to customers and solution implementers have an average of more than ten years of working experience and rich industry know-how.

Teaching materials and year-round online service (including a 24-hour online service, 400 Telephone hotline for free consultation, email service on the official website) are available to support customers, implementers and end users of solutions.

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Product Warranty, Return and Exchanges

For our in-house developed hardware devices, the Company provides no less than one-year warranty period from the delivery of our products, during which we will provide free repair or exchanges services except for repairs for man-made damages or damages resulting from force majeure events. During the Reporting Period, there were no violations of laws and regulations on product quality or incidents that had a significant impact on the Company. We had not experienced any material product return from customers.

Adverse Event Monitoring and Management

In order to strengthen the monitoring and re-evaluation of adverse events of medical devices, timely and effectively control the risks of medical devices after they are marketed, and protect human health and safety, our Company arranges professional personnel to be responsible for the monitoring and management of adverse events of products and services in accordance with the “Regulations on the Supervision and Administration of Medical Devices”. Our adverse event monitoring personnel receive adverse event information (including but not limited to product defects, recalls, use problems, accidents, etc.) through the Company’s official website, customer channels, etc., and report it to the monitoring agency in a timely manner through the national medical device adverse event monitoring information system within the specified time. If an adverse event occurs, we will handle it in accordance with the provisions of the product adverse event monitoring and control procedures, and report to the monitoring agency in accordance with the “Measures for the Administration of Medical Device Adverse Event Monitoring and Re-evaluation” and other laws and regulations. At the same time, we will also conduct safety research on medical devices, perform risk analysis and evaluation, and take measures such as suspending production and sales of related products, product recalls, etc., to minimize the health risks of products. Relevant records of medical device adverse event monitoring will also be systematically and completely preserved in files.

During the Reporting Period, our Company did not experience any adverse events of medical devices, nor did we have any product recall incidents.

In the future, our Company will continue to strengthen the monitoring and management of adverse events, and strictly implement relevant internal regulations and procedures to ensure timely and accurate disclosure of product-related adverse events and protect the public’s life and health. At the same time, we will continue to improve quality management and safety management measures to ensure that our products and services always meet national and industry quality and safety standards.

Product Quality Assurance

In terms of product and service quality, the Company strictly complies with the Product Quality Law of the PRC, YY/T 0287-2017 idt ISO13485:2016 Medical devices — Quality management systems -Requirements for regulatory purposes, YY/T 1406.1-2016 Medical device software Part 1: Guidance on the application of YY/T 0316 to medical device software to ensure that software and hardware products and services made by the Company meet the requirements for quality. In 2022, Airdoc’s Quality Manual (《北京鹰瞳质量手册》) has further improved by the Company. A series of related quality management systems, including the Management System for Quality Documents, Management System for Relevant Departments, Organizations and Staff, Management System for Procurement and Acceptance, Management System for the First-purchased Product Qualification Review, and Management Regulations for Storage, Warehousing and Transportation of Medical Devices, Regulations on Quality Management of Medical Devices, Management System for Sales and After-sales Service, Management System for Substandard Products, Management System for Return and Exchanges of Medical Devices, Management System for Recalls of Medical Devices, Management Regulations on Verification and Calibration of Facilities and Equipment, Management System for Hygiene of Medical Devices and Health Status of Contact Persons, Quality Management

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Training and Assessment Regulations, Quality Accident and Complaint Handling Management System, have been established in advance by the Company to assure the quality of products and services, satisfy customer needs and improve customer satisfaction.

During the Reporting Period, the Company's specific measures to strengthen product quality management were as follows:

- The Company organises production and product quality control for whole process in strict accordance with the Good Manufacturing Practice for Medical Devices, and conducted training in respect to product quality of medical device related laws and regulations for various departments and positions;
- The Company established quality manuals, procedure documents and management systems, operation procedures and other quality management system documents in accordance with YY/T0287-2017 idt ISO13485:2016 Medical devices — Quality management systems — Requirements for regulatory purposes and ISO9001 quality management system (ISO9001質量管理體系). The quality management system operated normally and effectively, which can meet regulatory requirements, YY/T0287-2017 standards and the actual operation requirements of the Company and has been continuously improved through internal audit and management evaluation. The Company successfully passed the on-site assessment and routine supervision and review of the system organised by relevant institutions such as National Medical Products Administration;
- In accordance with relevant laws and regulations and the Guidelines for Supplier Evaluation of Medical Device Manufacturers (《醫療器械生產企業供應商審核指南》), the Company has formulated the procedural document of SMP-05 Supplier Audit System (《SMP-05供應商審核制度》) to control the process of audit and evaluation on suppliers and conduct annual evaluation of existing suppliers, that all suppliers meet the requirements of qualified suppliers;
- The Company has formulated the QCP-17 Traceability Control Procedure (《QCP-17可追溯性控制程序》) and established a traceability system to meet the traceability requirements of raw material adoption, production, inspection process and products. The traceability process is classified into processes of adoption, production, inspection and sales. The traceability methods are recording, record coding, materials coding, and product coding. Traceability requirements of the adoption process was applied throughout the whole recording process of adoption implementation and arrival acceptance; the inspection process and production process take the number of production lot and code of the product as the main traceability basis; the sales process takes the order number as the traceability basis, to establish sales accounts, and the recording content should include the name of the medical device, size, model, number of production lot, expiration date, sales date, purchasers' name, address and contact information;
- The Company has formulated the QCP-23 Quality Control Procedure (《QCP-23質量控制程序》), which stipulates the quality control of the whole process of the products, especially the adoption and production process, to ensure that the medical devices meet the mandatory standards and the registered or filed technical requirements of the product, including with verification, confirmation, monitoring, measurement, inspection and testing activities related to major raw materials, finished products, packaging materials, labels of product and its quality management; as well as including verification, confirmation, monitoring, measurement, inspection and testing activities and its quality management related to the production process, in particular the key processes of the production process;
- The Company has formulated the Inspection Procedures for Finished Products in accordance with mandatory standards and registered or filed product technical requirements, product delivery requirements and enterprise internal control standards to clarify that the finished products are subject to routine control of verification, confirmation, monitoring, measurement, inspection procedures, requirements and acceptance criteria, and acceptance and rejection and its related handling measures are subject to record;

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- The Company authorised the quality inspection department with the function of finished product inspection in accordance with the human resource management regulations, and the quality inspectors should inspect the finished products in accordance with the Inspection Procedures for Finished Products. If the product fails to pass the inspection, it will be handled in accordance with the QCP-25 Substandard Product Control Procedure (《QCP-25不合格品控制程序》); if the product passes the inspection, the releaser authorised by the Company will sign the release instruction, and the quality inspection department will issue eligibility certification documents, both will be put into the finished product packaging as the accompanying documents.

During the Reporting Period, there was no violation of production and service responsibility which had material impact on the Company.

In the future, the Company will continue to improve the quality management of products and services from the following aspects:

- Strengthening quality awareness;
- Improving quality inspection skills;
- Improving suppliers' quality assurance capabilities;
- enhancing quality control in the workshop and production process;
- Improving system implementation;
- Regular activities of quality month;
- Promoting product design improvement.

Sustainable Supply Chain

Sincere cooperation with suppliers is an important guarantee for the Company to achieve its strategies, and also an inexhaustible driving force for its development. With emphasis on the communication with suppliers, we actively build a cooperation platform and strive to establish long-term, close, mutually beneficial and win-win partnerships with suppliers. We work together to provide customers with high-quality products and services, and promote the sustainable and stable development of the industry. During the Reporting Period, the Company's suppliers increased to 43 from 25 in 2021.

Based on the relevant laws and regulations, such as YY/T0287-2017 idt ISO13485:2016 Medical devices — Quality management systems — Requirements for regulatory purposes, ISO14001 environmental management system standard and the Guidelines for Supplier Audit of Medical Device Manufacturers (《醫療器械生產企業供應商審核指南》), we established the procedural document SMP-05 Supplier Audit System (《SMP-05供應商審核制度》) for supplier management and risk control.

Our supplier selection mechanism covers all suppliers, which is divided into optical parts suppliers, electronic parts suppliers, mechanical structural parts suppliers and packaging accessories suppliers by category. The bidding system and process are divided into the following two points:

- Firstly, according to the materials supplied, the suppliers are classified into three levels: A (strategic suppliers), B (important suppliers) and C (ordinary suppliers). The selection requirements for class A and B suppliers are relatively strict. Sampling and verification will be conducted after a technical team confirms the qualification

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document collection, site review, staffing, upstream and downstream data chains of suppliers. Suppliers verified will be officially introduced after being approved as qualified suppliers and added to the list of qualified suppliers; class C can include the site review as an optional;

- Site review involves an inspection on the working environment of suppliers' employees. Staffing is about an inspection on labour contracts, and child labour is strictly prohibited. Suppliers that obtain environmental system certification (such as ISO14001) will get bonus points in supplier audits.

The Company controls the process like supplier audit and evaluation based on SMP-05 Supplier Audit System (《SMP-05供應商審核制度》), conducting a third-party review on a supplier's delivery quality, price and service quality in the current year, and issue an annual review report to evaluate the supplier, which will affect the allocation of cooperation shares in the next year. The Company strictly inspects and supervises suppliers during their performance. We will inspect suppliers' social responsibility and environmental protection aspects. Specifically,

- Suppliers using child labour will be ordered to make rectification, with point deduction in annual evaluation. Suppliers with low scores will be eliminated;
- Suppliers that obtain environmental system certification (such as ISO14001) will get bonus points in supplier audits.

Supplier Distribution

Region	Unit	Total in 2022
North China (Beijing, Tianjin, Shanxi Province, Hebei Province, Inner Mongolia Autonomous Region)	Number	9
Northeast China (Heilongjiang Province, Jilin Province, Liaoning Province)	Number	1
East China (Shanghai, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Shandong Province)	Number	12
Central China (Henan Province, Hubei Province, Hunan Province)	Number	1
South China (Guangdong Province, Guangxi Zhuang Autonomous Region, Hainan Province)	Number	18
Southwest China (Sichuan Province, Guizhou Province, Yunnan Province, Chongqing, Tibet Autonomous Region)	Number	2
Total	Number	43

In the future, the Company will strictly audit suppliers, never accept suppliers that use child labour and cause environmental pollution, and encourage suppliers to recommend eco-friendly products according to its needs, such as low-power chips, degradable materials and reusable materials. In terms of supplier management, the Company will strengthen standardization and timeliness, such as strengthening the sampling inspection of key materials and enhancing the quality assurance of materials and prefer to cooperate with well-known manufacturers considering its social responsibilities.

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Integrity and Compliance Operations

Anti-corruption is not only an important part of corporate management, but also a necessary procedure of a self-restraint mechanism. Strengthening the anti-corruption efforts is an internal requirement of promoting corporate reform and development, and a material measure to standardize corporate operations and management activities.

Based on the requirements, our employees and business partners, including but not limited to staff employees, interns, part-time employees who have signed employment contracts and others who receive compensation from the Company, like business partners, merchants, channel agents and suppliers, are also required to comply with all applicable laws and regulations, such as the Anti-Unfair Competition Law and the Interim Provisions on the Prohibition of Commercial Bribery (State Administration for Industry and Commerce Order No. 60).

The Company has established a three-level ethical governance system consisting of the Board, the Audit Committee and the internal audit department. The board of directors is the highest leading body of its anti-fraud work, and the chairman of the Board is the direct leader of the investigation and handling of fraud cases. The Board has the responsibility to urge the management to build an anti-fraud culture and establish and perfect the internal control system for fraud prevention; under the Board, the Audit Committee is set up to be responsible for supervising the work of the internal audit department of the Company, and provide opinions and recommendations on the appraisal and change of persons in charge of the internal audit department. The internal audit department of the Company is a permanent body for anti-fraud work, responsible for organizing and implementing anti-fraud work within the Company and across departments. The Company accepts and registers fraud reports, organizes investigations into fraud cases, offers investigation reports and handling suggestions, and regularly prepares Anti-Fraud Monitoring Briefings based on investigation results, and reports to management. The managers of each department are responsible for the daily anti-fraud work in their jurisdiction, have responsibility to establish and effectively implement the control procedures to prevent fraud, and assume management responsibility for the fraudulent behaviour of their direct subordinates.

Employees and all social parties that have direct or indirect economic relations with the Company can conduct integrity report for violations of professional ethics by its employees, or to disclose or expose actual or suspected fraud through email, letter, telephone and face to face communication. The Company's internal audit department strictly keeps confidential the information of whistleblowers. At the same time, the Company requires employees and third parties representing the Company to attend compliance training and assessment. The Company has set up a special email address for complaints, jubao@airdoc.com and internal audit department email address ic@airdoc.com to receive relevant email.

In 2022, the Company continued to work on the construction of ethical system and system, adhering to the spirit of "obedience to laws and regulations, honesty and trustworthiness, dedication to duty, diligence and innovation, integrity and self-discipline, and acceptance of supervision", the Company revised the "Major Violations by Employees Version 1.0" (《員工重大違規行為1.0版》), "Guidelines for Investigation and Procedures of Business Ethics Violations Version 1.0" (《員工違反職業道德準則調查和處理指引1.0版》), and the "Code of Ethics by Employees", including defining major violations by employees, clarifying the investigation and handling plan for violations of the code of ethics by employees, and strengthening crackdown efforts to improper acts, such as fraud and bribery, strengthening the requirements for managers at all levels; and the relevant parties shall be held accountable according to the severity of fraud cases, including fines, salary reduction, termination of employment contracts and judicial referral.

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The purposes of the Company to establish the code of conduct above are as follows:

1. The Company abides by professional ethics in conducting business activities, and promises not to obtain or maintain any business by bribery, nor to provide help or support to any corrupt behaviour;
2. The Company establishes principles to guide and regulate all business activities of its employees and third parties representing the Company, so as to ensure that our business activities comply with national anti-corruption laws and regulations and resolutely resist all forms of corruption;
3. The Company hopes that all employees and third parties representing the Company abide by relevant laws and regulations, as well as its relevant principles, rules and norms, in order to protect employees and third parties from potential illegal liabilities or penalties. Employees who violate the above laws and company rules will be subject to disciplinary action or even dismissal, as well as corresponding administrative or criminal penalties.

During the Reporting Period, no significant risks related to corruption were discovered by the Company, and there were no confirmed incidents of corruption involving the Company or public legal proceedings against the Company and its employees.

In the future, the Company will continue to attach importance to anti-corruption and integrity work, strengthen the supervision by anti-corruption monitoring agencies, expand the scope of external supervision, and improve the internal audit system, so as to provide green guarantee for the healthy development of the Company.

Giving back to Community

The mission of the Company is “More Intelligence, Better Care”, meaning artificial intelligence to make high-quality healthcare accessible and affordable to everyone. We are committed to our mission and will continuously adhere to inclusiveness, professionalism and long-term dedication to bring the best quality healthcare services to every ordinary person. As a responsible social enterprise, and with a view to responding to the unbalanced medical resource allocation, the Company has established its position with leading artificial intelligence technology, developed rich and high-quality innovative product, actively participated in social welfare activities and industry discussion activities, to jointly promote the application of AI technologies in primary healthcare institutions and communities, feed back to society with concrete actions, establish a positive corporate image, enhance corporate culture, and boost employee’s sense of social responsibility and collective honour.

The Company has relevant executives responsible for the operation team to support and participate in relevant public welfare activities including but not limited to Sight Day, Diabetes Day, Day of Persons with Disabilities, etc. We mainly participate in social welfare activities in the form of cooperation with institutions or governments, publicize and popularize relevant healthcare knowledge, and provide services regarding eye health, screening of diabetes and health risk assessment for various chronic diseases.

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During the Reporting Period, the Company has participated in the following activities in giving back to community (by order of time):

Help the Hunan Fundus Diseases Specialized Alliance (湖南眼底病專病聯盟) to Carry Out Voluntary Screening on Sight Day

On June 6, 2022, the 27th National “Sight Day”, a number of ophthalmology experts from the ophthalmology teleconsultation center of the Second Xiangya Hospital of Central South University brought together the ophthalmologists and local people in Li County, Cili County and Longshan County, which are thousands of miles away from Changsha, through the cloud-based connection to conduct voluntary eye disease screening.

The screening was sponsored by the Hunan Fundus Disease Specialized Alliance (湖南眼底病專病聯盟) and supported by Airdoc, the leader in retinal artificial intelligence, using retinal image artificial intelligence to identify and assist the screening. Ophthalmology experts from the Second Xiangya Hospital completed teleconsultations for more than 500 people with eye diseases and detected many fundus abnormalities in just one morning.

For example, a 49-year-old woman in Li County was diagnosed with suspected severe proliferative diabetic retinopathy, which required immediate treatment. The situation was immediately reported to the head of local ophthalmology department Sun Jun (孫軍); a 19-year-old myopic patient in Longshan was diagnosed with high myopia retinopathy; and a 78-year-old man in Cili was diagnosed with age-related macular degeneration.

Sun Jun (孫軍), the director of Li County Hospital of Traditional Chinese Medicine (澧縣中醫院), said, “A single photo of the fundus can let us recognise the disease earlier. Combining artificial intelligence technology with teleconsultation is so great that it was unimaginable in the past. It solves the problem facing the primary level, and can be popularized as a routine operation in the future.” Director Xie Qiong (謝瓊) of Cili Chinese Hospital (慈利中醫院) and Director Peng Han (彭寒) of Longshan County People’s Hospital (龍山縣人民醫院) also said that this new model of combining AI with teleconsultation technology is perfect for the primary level, efficient and convenient, and can save the local people’s medical expenses.

Professor Luo Jing (羅靜教授), who is in charge of the screening activity, said that AI-based retinal imaging system of Airdoc is so easy to operate that medical staff can collect images after simple training, and taking a picture of the fundus takes less than one minute, so it can assist doctors to evaluate eye diseases and other chronic diseases in an efficient and high-quality way. The combination of AI technologies and telemedicine services can establish a feasible and practical “expressway” for the grass-root locations where high-quality medical resources and fundus-specialized doctors are insufficient.



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A Day of Little Financial Journalists Experiencing Medical AI Black Technology

On July 22, 2022, the series of activities of “Youngster — the Upbeat Power” organised by The Economic Observer invited more than 20 children to experience “a day as a financial journalist” in an in-depth manner. The first activity of the day was “Experience Medical AI Black Technology” retinal testing and understanding of the medical principles involved carried out by Airdoc. In recent years, myopia among teenagers has become a growing concern in society. The little reporters experienced the testing with the support of Airdoc, learnt eye care tips and understood how to protect their eyes in a scientific way, which helped to raise their awareness of eye care.

“A day as a financial journalist” allowed little journalist to visit the enterprise and conduct in-depth, interactive, face-to-face on-site interviews, study and popularise science and technology together with financial reporters, and explore the frontiers of science and technology. It could improve the teenagers’ capabilities in respect of observation, thinking and communication, lead little reporters to focus on the fields of science and technology, encourage them to think deeply about energy issues and think about travel in the future, and at the same time enable little reporters understand the culture of enterprises through learning and practice.



Release of Blue Paper on the Health of Three Million Chinese Medical Examination Population

On August 2, 2022, iKang collaborated with Airdoc to release the Retinal AI Based Blue Paper on the Health of Three Million Chinese Medical Examination Population (“**Blue Paper**”), under the guidance of the China Center for Health and Economic Research of Peking University.



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The Blue Paper not only set out the distribution of people with fundus abnormalities, but also included for the first time the verification of artificial intelligence risk assessment of cardiovascular and cerebrovascular diseases, diabetes, hypertension and anemia, and analysed the health conditions of people who continuously undergo health checkups as well as the data results combined with offline health surveys, aiming to further raise the attention of Chinese residents and enterprises to whole-body health with ocular health included, establish a right health concepts and raise awareness of prevention and control of chronic disease risks.



From left to right at the launch of the Retinal AI Based Blue Paper assessment: Zhang Ligang, founder, chairman and CEO of iKang Healthcare Group; Wei Wenbin, vice president of Beijing Tongren Hospital affiliated to Capital Medical University (首都醫科大學附屬北京同仁醫院); Xu Haifeng, Chinese shooting athletes and the first Chinese Olympic gold medallist; Zeng Qiang, former chair of the Chinese Health Management Association and director of Institute of Health Management of Second Medical Center (第二醫學中心健康管理研究院主任) of the General Hospital of the People's Liberation Army; Hu Hongliang, director of Joint Laboratory of Big Data on Ophthalmology under the National Engineering Center of Science and Technology Information and head of Scientific and Technical Documentation Press; Zhang Dalei, founder of Airdoc. Guests discussed the application and prospect of the AI-based retinal imaging technologies, and the significance of AI technologies for chronic disease risk monitoring and management at the press conference.

2022 is the fourth year that iKang and Airdoc have jointly released the blue paper, and the sample size has exceeded 3 million people in total. Zhang Ligang, founder, chairman and CEO of iKang Healthcare Group, said that, "AI is changing the way medical services are delivered, and in the future, we hope to work with all medical experts, AI innovative companies, and the medical check-up industry to make fundus photography AI assessment a standard item in medical check-up."

Zeng Qiang, former chair of the Chinese Health Management Association and director of Institute of Health Management of Second Medical Center (第二醫學中心健康管理研究院主任) of the General Hospital of the People's Liberation Army, said that, "retinal AI technology allows for personalized dynamic monitoring and provides a good foundation for developing health management programs."

Wei Wenbin, vice president of Beijing Tongren Hospital affiliated to Capital Medical University (首都醫科大學附屬北京同仁醫院), said that it is not only able to screen for eye diseases, but also to assess and intervene chronic disease risk through a colour fundus photographs, thus achieving health management of the whole life cycle.

Hu Hongliang, director of Joint Laboratory of Big Data on Ophthalmology under the National Engineering Center of Science and Technology Information and head of Scientific and Technical Documentation Press, said that, "AI technology and big data can help us understand health status more conveniently and easily, and achieve highly customized health management."

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Xu Haifeng said, “If it were not for my eyes, maybe I have the opportunity to take part in three more Olympic Games and win a number of world championships. Now with such good technology, more people are to be less troubled by disease and identify potential crises so as to receive treatment as early as possible and contribute more for our country.”

Zhang Dalei, founder of Airdoc said, “when we provide more information to users in the closed loop from physical examination to health assessment to health intervention, users can complete the health intervention more accurately with more confidence, and thus more benefits.”

Caring for the health of the police, Airdoc visited the Haidian District Garden Road Police Station

On August 19, 2022, Airdoc conducted retina artificial intelligence health risk assessment for primary police in Garden Road Police Station, Haidian District, Beijing, in support of “effectively caring for the physical health of the police and strengthening caring and benefiting measures”. Through this one-minute retina examination, the police received with a whole-body health risk assessment report including checks on cardiovascular and cerebrovascular system, endocrine and metabolic system, and nervous systems, so that they could timely understand their own physical conditions and make greater contributions to the general public. The Company’s medical team also visited the site to popularize and promote health knowledge.



Airdoc was invited by Haidian District Science & Technology Commission to participate in Beijing Science and Technology Week

“2022 National Science and Technology Activity Week and Beijing Science and Technology Week Activity” was held from August 20, 2022 to August 27, 2022 in Central Green Forest Park, Tongzhou District, Beijing, focusing on the exhibition of cutting-edge science and technology innovation achievements of Beijing during the 14th Five-Year Plan period. Airdoc was invited by Haidian District Science & Technology Commission to participate in the exhibition. Airdoc presented its self-developed automatic, fully self-service, portable fundus camera in the exhibition area, for the public to experience the latest medical AI scientific research products free of charge.

The camera is equipped with the artificial intelligence health risk assessment system of retina imaging developed by the Company, which can evaluate dozens of health risks within one minute. Citizens in Beijing can receive a health risk assessment report covering checks on cardiovascular and cerebrovascular system, endocrine system, nervous system and ocular system by scanning the code and taking a picture of their fundus in only 30 seconds. During the Week, hundreds of citizens were benefited by the free AI-based fundus examination services.

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Supporting “Five Step-in Healthcare Servicesearth” of the Health.people.com.cn (人民健康「五進」關愛服務計劃) visited the Ministry of Ecology and Environment

On September 21, 2022, the “Five Step-in Healthcare Servicesearth” of the Health.people.com.cn (hereinafter referred to as the “Five Step-in” campaign), guided by the Office of the Healthy China Action Promotion Committee and hosted by People’s Daily Online Health Chanel, was carried out the Ministry of Ecology and Environment. Through science popularization lectures, voluntary diagnosis and healthy living experience, it brought immersive health services to the personnel of the Ministry of Ecology and Environment. Airdoc provided artificial intelligence fundus examination services with its fundus camera, for the personnel of the Ministry of Ecology and Environment. They could better understand their health conditions through rapid non-invasive examination and patient explanation.

Airdoc actively supports the development of the “Five Step-in” campaign, with the team visiting the government authorities, enterprises, communities, villages, campuses, for the masses to provide science introduction, expert consultation, healthy life experience and other care services.



Airdoc’s Portable Smart Fundus Camera Unveiled at Shanghai’s First Disabled-friendly Bookstore

On December 3, 2022, “Xinhua Bookstore • Niguang 226”, a non-visual culture bookstore, commenced its operation at 226 Nanchang Road, in Shanghai. Airdoc’s fully automated fundus camera was also unveiled at the opening ceremony and was available for free trial to the general public for three days. Through this store, Xinhua Bookstore Group expects to promote the concept of eye care for all.

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December 3 is the International Day of Persons with Disabilities. The opening event was jointly organised by the Shanghai Foundation for Persons with Disabilities, 2nd Ruijin Road Street and Xinhua Media, with technical support from Airdoc. The opening of the Niguang 226 Bookstore aimed to improve understanding and communication between able-bodied people and disabled people, so that disabled people can be seen, respected and show their self-worth to together build a loving, barrierless and harmonious society. “Niguang” represents facing up to difficulties and moving towards light and beauty, a compliment recognizing those people with disabilities who pursues brightness backing towards the blacklight, and shine for others despite being in darkness.



Based on the above examples, the charity activities that the Company participated provide users with high-quality health examination services by using artificial intelligence software and hardware integrated products to enable cooperative institutions or governmental authorities, highlighting our fast, non-invasive, safe and accurate advantages, with great accessibility, inclusiveness and sustainability, and in line with the national policy guidance. The above Sight Day voluntary diagnosis and screening activity was a new model of eye health initiatives in Hunan Province, which used artificial intelligence to promote inclusive medical treatment, and was highly consistent with the current policy.

In the future, the Company will make steady improvements in social charity, senior executives taking turns as the leader, mobilizing more employees to participate in charity activities and spending more time in providing more frequent AI-based detection services to cover more people in more scenarios. The Company aims to regularly and continuously provide health monitoring services to 1/3 of the world’s population through the observation of retinal blood vessels and nerves, thus truly fulfilling our mission of “More Intelligence, Better Care”.

TALENT TRAINING AND DEVELOPMENT

Safeguarding the Rights and Interests of Employees

The Company strictly complies with relevant laws and regulations, including the Labor Law of the PRC, the Labor Contract Law of the PRC, the Social Insurance Law of the PRC, the Individual Income Tax Law of the PRC, the Law on the Protection of Women’s Rights and Interests of the PRC, the Regulations on Labor Protection for Female Workers, the Regulation on Public Holidays for National Annual Festivals and Memorial Days, as well as the Regulation on Labor Security Supervision.

We recruit employees mainly through recruitment websites and internal recommendations. All employees of the Company are located in China. In accordance with the Labor Law of the PRC, the Company signs individual employment contracts with employees stipulating salary, employee benefits, workplace safety, confidentiality obligations, non-competition, reasons for termination, etc.

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The Company is committed to safeguarding basic human rights and adopts a zero-tolerance stance against the use of child labor or forced labor under any circumstances. We take certain preventive measures, such as requiring candidates to present valid personal identification documents during the recruitment process for verification, and conducting background checks on all employees. In case of any fraudulent information found, the Company will take appropriate actions to terminate such behavior, to ensure compliance with all applicable laws and regulations.

During the Reporting Period, the Company did not employ any child labor or engage in any forced labor practices, and there were no violations or underpayments of social insurance contributions.

Employee composition in 2022

Employee category	Number of employees
Total employees	297
By gender	
Male	189
Female	108
By employment type	
Full-time	275
Part-time	22
By age group	
Under 30 years old	87
30–50 years old	198
Over 50 years old	12
By geographical region	
China Beijing	198
China Shanghai	39
Other regions	60

Employee turnover in 2022

Employee category	Percentage
By gender	
Male	29.9%
Female	13.1%
By age group	
Under 30 years old	11.3%
30–50 years old	30.9%
Over 50 years old	0.8%
By geographical region	
China Beijing	22.5%
China Shanghai	3.8%
Other regions	16.7%

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Employee Care and Welfare

To enhance the sense of belonging of employees, the Company carried out a series of employee care activities to provide them with a platform for self-presentation and communication to meet their spiritual needs and enhance their sense of happiness. For example, each monthly meeting includes a self-introduction session for new employees. We also encourage our employees to promote multi-layer communication, expand their career skills and develop hobbies. The Company provided benefits to its employees, including supplementary commercial insurance, monthly and annual merit bonuses, lunch subsidies, fitness subsidies, annual medical check, holiday welfare, marriage care and maternity care, and occasional team building activities. In 2022, due to the impact of the pandemic and other factors, there were restrictions on the use of the park or the gymnasium. As a result, we did not organize the staff sports day, but instead provided equipment such as badminton rackets, shuttlecocks and jump ropes for staff groups to organize their own fitness activities freely in small groups. In December 2022, in response to the adjustment in the pandemic control measures, we promptly prepared and distributed a fixed amount of medication to our staff to deal with the risk of virus infection, and further implemented a flexible office practice. In January 2023, the Company organized a year-end commendation conference to recognise and reward staff and departments for their outstanding performance and business in 2022, as well as individual talent shows and team competitions to promote their sense of belonging and honor.



Employee Health and Safety

Modern enterprises put forward the core concept of “people orientation”, which is embodied in the attention to the safety and health of employees. A safe and comfortable working environment not only helps improve the working efficiency of employees and ensure their physical and mental health, but also promotes standardized management of enterprises, enhances brand image and improves their comprehensive competitiveness.

The Company strictly complies with relevant laws and regulations including the Production Safety Law of the PRC and Law on Prevention and Treatment of Occupational Diseases of the PRC, actively responds to the national policies and measures for joint prevention and control of the pandemic, eliminates hidden safety hazards in the office environment and public places, and purchases emergency drug and distribute them to our employees. More attention was paid to the health and safety of employees amid the COVID-19 pandemic. Efforts were made to scientifically and effectively prevent and control COVID-19, improve prevention, control and response capabilities, and effectively prevent and control the spread of the pandemic within the Company, so as to ensure the health and safety of employees, and maintain normal work order. The Contingency Plan for Pandemic Prevention and Control of Airdoc was laid down according to such relevant laws and regulations as the Law on the Prevention and Treatment

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of Infectious Diseases of the PRC, the Regulations on Preparedness for and Response to Emergent Public Health Hazards and based on the actual conditions of the Company. The plan clearly states the Company's pandemic prevention and control team and clarifies its responsibilities as follows:

- CEO: responsible for disclosing information under abnormal circumstances, and overseeing the implementation of pandemic prevention work in various departments;
- HR department: responsible for collecting health status data of all employees on a daily basis, checking abnormal conditions and reporting the results to the heads of various departments, making arrangements about medical treatment for suspected cases, tracking and notifying progress; summarising and giving feedback to daily reports of telecommuters, paying for medical treatment during the pandemic, answering questions about HR policies such as labor relations; helping employees coordinate resources and answering difficult questions;
- Administration department: responsible for disinfecting and maintaining offices and detecting and reporting abnormal conditions; allocating and distributing anti-pandemic supplies; overseeing anti-pandemic measures for incomings and outgoings; taking employee temperature and reporting abnormal information; signing and saving the COVID-19 Prevention and Control Commitment; communicating with property management firms and centers for disease control and prevention;
- IT: responsible for the normal operations of the Company's information equipment, the use and maintenance of employees' office computers and software;
- Professional affairs department: responsible for the publicity and education of COVID-19 prevention and treatment knowledge;
- Heads of primary departments: responsible for monitoring team members' protective measures and reporting abnormalities; holding regular team meetings and driving day-to-day work to be carried out; arranging backup in abnormal conditions; supervising team members' health declaration and submission of daily work-from-home reports;
- The Company also has emergency contacts.

In response to the COVID-19 pandemic, the Company conducted routine monitoring on the pandemic situation. The details are as follows:

- All employees — internal monitoring and protection: all employees are required to have their temperature measured twice a day in the morning and at noon, and conduct self-observation. If employees are suspected or confirmed cases, they need to notify the HR department and their immediate superiors as soon as possible. Employees who do not work in the office are required to fill in a health declaration form every day, while those who are isolated but do not take leave need to submit a daily work-from-home report. Daily protection is specifically described in the Employee Safety Handbook formulated by the Company. All employees need to prepare for office tools and work arrangements in case of emergencies;
- Administration department — workplace monitoring: according to the Airdoc Office Guide for Pandemic Prevention, the administration department is responsible for disinfecting office areas, monitoring the anti-pandemic measures for employees entering and leaving offices, and taking, observing, inquiring about and recording the body temperature of all employees in offices in the morning and at noon;

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- Department heads — internal monitoring: the head of a department needs to keep a close eye on the health status of employees working in the office and working from home. If there is any abnormality, he is required to inform the HR department for investigation;
- HR department — all employee monitoring: the HR department monitors the health status of all employees, checks abnormalities and publicizes health status to all employees every day. It collects statistics to make work backup arrangements for abnormalities.

The businesses of the Company do not involve occupational hazards. During the Reporting Period, the Company had no violations due to failure to provide a safe working environment, no work-related deaths, and no lost days due to work-related injuries. Neither there was any work-related fatality in 2021, 2020 and 2019.

Employee Development and Training

Upholding the concept of “people orientation”, the Company believes that employees with sufficient skills and experience are our most valuable asset. Under the guidance of an open, unified, innovative and shared corporate culture, we continuously improve and deepen talent training, and regard learning as our core competitiveness and an important part of corporate culture. The Company continuously pools internal and external training resources, gradually builds a three-dimensional and multi-level training system covering all employees to meet their career development needs, with a view to enhance the occupational competence of employees to ensure our sustainable and healthy development. Therefore, the Company has set the following management goals in terms of employee training:

- To assist new employees in gaining job competencies through onboarding and commercialization training;
- To help employees improve specific competencies through general competency and leadership training;
- To strengthen team cohesion and cooperation consciousness through team building and all-hands meetings.

Our in-house training is divided into six categories according to different purposes and objects: onboarding, commercialization training, general competency training, leadership training, experiential learning (team building), and all-hands meetings.

Environmental, Social and Governance Report

The Company requires all new recruits to pass the following four assessments within one month of entry on duty:

- Learning from Understanding Airdoc: Online Learning Task Package for New Employees and passing the exam;
- Learning from Integrating into Airdoc: Offline Training Examination for Employees and passing the exam;
- Passing one-on-one assessment of report interpretation;
- Passing assessment of manual operation of devices.

The corporate culture workshop in the Company's onboarding is a training program that helps new employees understand the meaning and value of working in the Company based on You Will Never Know, a story imported from real user cases. The founder and senior executives share the mission, vision and values to help new employees systematically understand the founding intention, goals and value orientation of the Company. By reviewing the content and process of the Desert Survival case, the Company combines the values with the decision-making, communication, collaboration and other behaviours in daily work. By inviting staff to perform their self-writing and directing value scenarios at the Theatre of Value, the Company helps new staff to get better involved and engaged into the community and deepen employees' understanding to our value.

In addition to the above regular training, we also organized a mid-year development program for all staff in mid-July 2022, including a series of activities such as hiking, case sharing, seminar on business and new product experience, which can strengthen the cohesion and coordination of team.



Environmental, Social and Governance Report

The Company trained a total of 283 employees in 2022, with a training coverage rate of 95% and representing an increase of 3% over the previous year. The percentage of training hours by gender and rank is show in the table below:

Employee training (from January 1 to December 31, 2022)	Number of employees trained	Percentage	Average training hours completed per employee/ (hour)
By gender			
Male	180	95%	33
Female	103	95%	33
By rank			
Management	33	100%	28
Non-management	250	95%	34

GREEN AND SUSTAINABLE DEVELOPMENT

Emission Management

The Company strictly complies with the laws and regulations on the prevention and control of environmental pollution, including the Law on the Prevention and Control of Atmospheric Pollution of the PRC, the Law on the Prevention and Control of Environmental Pollution by Solid Wastes of the PRC and the Law on the Prevention and Control of Water Pollution of the PRC. The Company strictly regulates the discharge and disposal of pollutants, with efforts to reduce all kinds of emissions generated in the process of operation and production to reduce the negative impact on the ecological environment. During the Reporting Year, no major environmental pollution and ecological damage events occurred in the Company. As active response to the national targets of “3060” (peaking carbon emissions by 2030 and achieving carbon neutrality by 2060), the Company promotes reductions in greenhouse gas emissions, mainly carbon dioxide, on climate change. We have taken measures to save energy, improve the ecological environment, optimize emission management and so forth, and made unremitting efforts to achieve the aforesaid targets.

The wastewater generated by the Company is mainly the wastewater from washrooms. The greenhouse gas emissions are mainly indirect greenhouse gas emissions caused by electricity consumption. It generated 144.81 tonnes of CO₂e¹ of indirect greenhouse gas emissions, with an emission intensity of 1 tonnes of CO₂e per million Yuan of revenue and the annual emission intensity per capita of 0.49 tonnes of CO₂e. The solid waste generated by the Company mainly consists of hazardous solid waste (waste ink cartridges, mercury-containing fluorescent lamps or energy-saving lamps, batteries, etc.) and non-hazardous solid waste (harmless decoration waste, waste paper, kitchen waste, etc.). On average, every 5 workstation is equipped with a trash can, and kitchen waste and hazardous waste are dumped into the trash can prepared by the property management firm in the industrial park. Considering the manufacturing method of our Company's medical devices is assembly production, where wastewater and waste discharge are not a material ESG issue to and have a relatively small impact on the Company, no statistics of wastewater and waste discharge were made.

¹ Indirect greenhouse gas emissions are calculated by multiplying the Company's purchased electricity by the corresponding emission factors that come from the Guide for Accounting and Reporting of Greenhouse Gas Emissions for Enterprises (Trial) published by the Ministry of Ecology and Environment of the PRC.

Environmental, Social and Governance Report

The Company has continuously implemented the concept of energy conservation, consumption reduction, greenness and environmental protection, striving to reduce emissions from the source. Our long-term goal is to promote emission management and environmental protection. We ultimately aim to realize a circular economy and walk onto the pathway to sustainable development.

Use of Energy and Resources

It is the bounden responsibility of enterprises to build a resource-saving and environment-friendly society. Saving energy and increasing energy efficiency can reduce operating costs of enterprises and promote the research and development of new technologies. Attaching importance to the economical use of natural resources, the Company strictly complies with relevant laws and regulations, including the Environmental Protection Law of the PRC, the Water Law of the PRC and the Energy Conservation Law of the PRC, striving to achieve coordinated and sustainable development among people, resources and the environment. The Company aims at the common development of economic and environmental benefits. While developing our business, we thoroughly implement the concept of energy conservation and environmental protection, and adopt various measures to continuously pursue clean, efficient and green development.

The energy and resources used by the Company are divided into three types:

- Water in washrooms used and drinking water consumed;
- Electricity consumed in offices and in factory workshops for daily illumination and air conditioning;
- Copy paper consumed in offices and for producing orders in the factory.

The Company encourages employees to save electricity and water, and notifies them to turn off power before holidays to save energy. The Company's electricity consumption is 248,010 kWh in 2022, with an average annual consumption of 37 kWh per square meter of gross floor area and an annual electricity consumption per capita of approximately 835 kWh. We not only emphasize the conservation of water resources, but also actively promote the efficient use of water resources. The Company advocates cherishing and saving water resources. We insist on water conservation, raise employees' water conservation awareness, help them develop a good water usage habit and put water conservation signs in washrooms. In 2022, the Company had no issue in sourcing water that is fit for purpose. Considering the manufacturing method of our Company's medical devices is assembly production, consumed a small amount of water and packaging materials, and water resource usage and packaging material consumption are not material ESG issues. So, no statistics of water resources and packaging materials used were made. The Company actively implements the concept of green office and advocates the environmental protection idea of energy conservation and carbon reduction. The Company consumed 1,515 kilograms of office paper in 2022.

Our goal in energy and water management is to improve the effective utilization of energy and water resources, and maximise the environmental and economic benefits of energy and water resources on the premise of satisfying business activities.

Environmental, Social and Governance Report

Response to Climate Change

According to the Global Risks Report published by the World Economic Forum, environmental risks remain a top risk in terms of probability and impact of risk in the next decade. Environmental risks are closely related to climate change. In order to cope with the severe challenges brought by climate change, developing a low-carbon economy has become a consensus of the international community. For enterprises, there are both risks and opportunities from climate change. How to incorporate the response to climate change into the business strategy and daily management activities of enterprises is related to whether enterprises can maintain and enhance their competitiveness and survive and develop for a long time in the fierce international market competition.

The Company's operations have no significant impact on the environment and natural resources during the Reporting Period and in the past. We have described our efforts in saving resources and reducing emissions in the preceding two sections.

The Company has taken effective measures to cope with the challenges brought by climate change, and seized the historical opportunity of developing a low-carbon economy, hoping to occupy the strategic commanding heights of future competition, so as to achieve our sustainable development. According to the assessment results of material issues and in light of our business characteristics, the Company pays attention to climate change issues although climate change has little impact on it. In the event of severe weather, the Company encourages employees to work from home to reduce the health and safety risks that may arise from commuting. We also track issues and learn such as rising sea levels and how to address climate change.

Environmental, Social and Governance Report

APPENDIX

The Stock Exchange's ESG Reporting Guide Content Index

ESG Reporting Guide		Report contents
Subject Areas A. Environmental		
Aspect A1: Emissions		
A1	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emission Management
A1.1	The types of emissions and respective emissions data.	explained
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emission Management
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	explained
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	explained
A1.5	Description of emission target(s) set and steps taken to achieve them.	Emission Management
A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Emission Management
Aspect A2: Use of Resources		
A2	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Energy and Resources
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume, per facility).	Use of Energy and Resources
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	explained
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Use of Energy and Resources

Environmental, Social and Governance Report

ESG Reporting Guide		Report contents
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Use of Energy and Resources
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	explained
Aspect A3: The Environment and Natural Resources		
A3	General Disclosure Policies on minimising the issuer's significant impacts on the environment and natural resources.	Response to Climate Change
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Response to Climate Change
Aspect A4: Climate Change		
A4	General Disclosure Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Response to Climate Change
A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Response to Climate Change
Subject Areas B. Social		
Employment and Labour Practices		
Aspect B1: Employment		
B1	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Safeguarding the Rights and Interests of Employees
B1.1	Total workforce by gender, employment type (for example, full-or part-time), age group and geographical region.	Safeguarding the Rights and Interests of Employees
B1.2	Employee turnover rate by gender, age group and geographical region.	Safeguarding the Rights and Interests of Employees

Environmental, Social and Governance Report

ESG Reporting Guide		Report contents
Aspect B2: Health and Safety		
B2	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Employee Health and Safety
B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Employee Health and Safety
B2.2	Lost days due to work injury.	Employee Health and Safety
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Employee Health and Safety
Aspect B3: Development and Training		
B3	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Employee Development and Training
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Employee Development and Training
B3.2	The average training hours completed per employee by gender and employee category.	Employee Development and Training
Aspect B4: Labour Standards		
B4	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Safeguarding the Rights and Interests of Employees
B4.1	Description of measures to review employment practices to avoid child and forced labour.	Safeguarding the Rights and Interests of Employees
B4.2	Description of steps taken to eliminate such practices when discovered.	Safeguarding the Rights and Interests of Employees

Environmental, Social and Governance Report

ESG Reporting Guide		Report contents
Operating Practices		
Aspect B5: Supply Chain Management		
B5	General Disclosure Policies on managing environmental and social risks of the supply chain.	Sustainable Supply Chain
B5.1	Number of suppliers by geographical region.	Sustainable Supply Chain
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Sustainable Supply Chain
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Sustainable Supply Chain
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Sustainable Supply Chain
Aspect B6: Product Responsibility		
B6	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Quality Assurance
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Adverse Event Monitoring and Management
B6.2	Number of products and services related complaints received and how they are dealt with.	After-sales Services Support
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Intellectual Property Management
B6.4	Description of quality assurance process and recall procedures.	Product Quality Assurance
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Information Security and Privacy Protection

Environmental, Social and Governance Report

ESG Reporting Guide		Report contents
Aspect B7: Anti-corruption		
B7	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Integrity and Compliance Operation
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases.	Integrity and Compliance Operation
B7.2	Description of preventive measures and whistleblowing procedures, and how they are implemented and monitored.	Integrity and Compliance Operation
B7.3	Description of anti-corruption training provided to directors and staff.	Integrity and Compliance Operation
Community		
Aspect B8: Community Investment		
B8	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Giving back to Community
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Giving back to Community
B8.2	Resources contributed (e.g. money or time) to the focus area.	Giving back to Community

Report of the Directors

The Board is pleased to present this Report of the Directors together with the consolidated financial statements of the Group for the year ended December 31, 2022.

BOARD OF DIRECTORS

The Board currently comprises four executive Directors, two non-executive Directors and three independent non-executive Directors.

The Directors during the year ended December 31, 2022 and up to the date of this annual report were:

Executive Directors

Mr. ZHANG Dalei (張大磊) (*Chairman and chief executive officer*)
Mr. GAO Fei (高斐) (*ceased on January 13, 2023*)
Dr. CHEN Yuzhong (陳羽中)
Mr. CHEN Hailong (陳海龍)
Ms. WANG Lin (王林) (*effective from March 30, 2023*)

Non-executive Directors

Mr. JIANG Bo (蔣波) (*ceased on May 19, 2022*)
Ms. WANG Mi (王謐) (*ceased on January 13, 2023*)
Mr. CHEN Xin (陳欣) (*effective from May 19, 2022*)
Ms. ZHU Tingyao (朱艇遙) (*effective from March 30, 2023*)

Independent Non-executive Directors

Mr. NG Kong Ping Albert (吳港平)
Dr. WU Yangfeng (武陽豐)
Dr. HUANG Yanlin (黃彥林)

GENERAL INFORMATION

The Company was incorporated in the PRC with limited liability on September 9, 2015 and converted into a joint stock company with limited liability on December 28, 2020. The Company's H Shares were listed on the Main Board of the Stock Exchange on November 5, 2021 and made an offering of 22,267,200 H Shares at the price of HK\$75.1 per H Share.

Report of the Directors

PRINCIPAL ACTIVITIES

We are an AI-based medical device company with an advanced platform of AI-empowered retina-based deep learning algorithms. Founded in 2015, we are one of the first to provide AI-empowered retina-based early detection, diagnosis and health risk assessment solutions in China. With the feature of integrated software and hardware solutions, we provide our AI-based SaMDs, health risk assessment solutions and hardware devices to a wide range of healthcare environments, enabling us to commercialize and sell not only to clinical departments in hospitals, but also to other types of medical institutions, various consumer healthcare environments and eye health management settings. Leveraging retinal imaging, multimodal data analyses and AI deep learning algorithms, our solutions differ from the traditional early detection and diagnosis method by adopting a non-invasive, accurate, fast, effective and scalable detection and diagnosis of chronic diseases. Our Airdoc-AIFUNDUS (1.0), an AI-based SaMD approved for auxiliary diagnosis of diabetic retinopathy in August 2020, was the first of its kind that obtained the Class III medical device certificate from the NMPA. In 2022, we had detected over 4.3 million cases via our SaMDs and health risk assessment solutions.

There were no significant changes in the nature of the Company's principal activities during the Reporting Period.

BUSINESS REVIEW AND RESULTS

A review of the business of the Group during the Reporting Period is provided in the section headed "Business Review" under "Management Discussion and Analysis" of this annual report. An analysis of the Group's performance during the Reporting Period is provided in the section headed "Financial Review" under "Management Discussion and Analysis" of this annual report.

The results of the Group for the Reporting Period are set out in the consolidated financial statements on pages 116 to 178 of this annual report.

DIVIDENDS

The Board did not recommend the distribution of a final dividend for the year ended December 31, 2022 (2021: nil). There is no arrangement that a Shareholder has waived or agreed to waive any dividend.

EVENTS AFTER THE REPORTING PERIOD

Investment in Industry Fund

On January 24, 2023, Airdoc HK, a wholly-owned subsidiary of the Company, entered into a subscription agreement with IndexCap Med&Tech I L.P. (the "**Partnership**") and IndexCap Med&Tech I GP Limited (in its capacity as the general partner of the Partnership), pursuant to which Airdoc HK agreed to (i) subscribe for limited partnership interests in the Partnership for a capital commitment in the amount of US\$14.5 million; and (ii) become a limited partner of the Partnership pursuant to the terms and conditions of the aforesaid limited partnership agreement. Further details of the subscription of interests in the Partnership are set out in the announcement of the Company dated January 24, 2023.

Report of the Directors

2022 Equity Incentive Scheme

On January 13, 2023, the Board resolved to adopt the 2022 Equity Incentive Scheme, which was subsequently approved by the Shareholders at the extraordinary general meeting of the Company held on March 30, 2023.

Key terms of the Scheme are provided in the section headed “Share Incentives Scheme” under “Report of the Directors” of this annual report.

Saved as disclosed herein, there was no important event affecting the Group occurred since the end of the Reporting Period and up to the date of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The following are parts of the key risks and uncertainties identified by the Group:

Risks relating to commercialization, sales and distribution of our products

- We may not be able to achieve the anticipated revenue of our AI-based early detection, diagnosis and health risk assessment solutions.
- Our financial prospects depend substantially on the success of our product portfolio.
- Our portfolio may not be able to achieve market recognition and acceptance for commercial success.
- We face substantial competition from other AI-based retinal imaging companies and potential competitors.
- The market opportunities for our products may be uncertain, which could render some products ultimately unprofitable even if commercialized, and we may not be able to fully capture the target populations of our products.
- We have relatively limited experience in marketing and sales of our Core Product.
- We rely on a limited number of major customers and there can be no assurance that these major customers will continue their purchases.
- The market opportunities for our AI-empowered retina-based early detection, diagnosis and health risk assessment solutions may be uncertain, which could render some products ultimately unprofitable even if commercialized, and we may not be able to fully capture the target populations of our products.
- Fluctuations, in particular, downward changes in pricing of our products may have a material adverse effect on our business and results of operation.
- Our delivery, exchange, return and warranty policies may adversely affect our results of operations.
- Our performance is subject to seasonal fluctuations.

Report of the Directors

Risks relating to our financial position and prospects

- We have incurred significant net losses since our inception, and may continue to incur net losses for the foreseeable future.
- We had net cash outflow from operating activities and may need to seek additional financing for our future operation.
- We may experience net current liabilities or net liabilities in the future, which could expose us to liquidity risks.
- The discontinuation of any of the preferential tax treatments currently available to us could reduce our profitability.
- If we experience delays in collecting payments from our customers, our cash flows and operations could be adversely affected.
- We are exposed to risks in connection with the wealth management products we purchased.
- We are subject to risks relating to investments in debt instruments and adverse development in the market interest rate, market liquidity, market sentiments or other market and economic conditions may materially and adversely affect our profitability and liquidity.
- We may not be able to fulfill our obligations in respect of contract liabilities, which may have a material and adverse impact on our business, reputation and liquidity position.
- Share-based payment may cause shareholding dilution to our existing Shareholders and have a material and adverse effect on our financial performance.

Risks relating to extensive government regulations

- Our business is subject to a variety of laws, rules, policies and other obligations regarding data protection. Any losses or unauthorized access to or releases of confidential information and data could subject us to significant reputational, financial, legal and operational consequences.
- Any adverse change in the regulatory regime in general may limit our ability to provide products and lead any lack of requisite licenses or certificates applicable to our business.
- If we fail to obtain and maintain the requisite licenses and approvals required under the complex regulatory environment applicable to our businesses in China, or if we are required to take compliance actions that are time-consuming or costly, we will not be able to commercialize our products and our business, financial condition and results of operations may be materially and adversely affected.
- Our products and any future products will be subject to ongoing regulatory obligations and continued regulatory review, which may result in significant additional expense and we may be subject to penalties if we fail to comply with regulatory requirements or experience unanticipated problems with our products and/or product candidates.

Report of the Directors

Risks relating to the R&D of our products

- We invest substantial resources in R&D in order to develop our products and enhance our technologies, which we may not be able to do successfully.
- Our self-developed algorithms and methodologies are complex and may contain errors, may not operate properly or may not be superior to our competitors, which could adversely affect our business, financial condition and results of operation.
- If we cannot maintain relationships with our R&D partners, or cannot establish or seek more collaborations and strategic alliances in the future, we may not be able to conduct R&D activities in a timely manner, or at all.
- If we encounter difficulties enrolling patients in our clinical trials, our clinical development activities could be delayed or otherwise adversely affected.
- We may not be able to successfully complete product registration testing or clinical trials in a timely manner and at acceptable costs, or at all.
- Potential issues in the adoption of AI technologies in our solutions and hardware devices may result in reputational harm or liability.
- We rely on internal and external medical experts to label data for retinal image analysis, so that we can effectively train our algorithms. Any suspension or termination of such partnership may adversely affect the effectiveness of the development of our algorithms.

Report of the Directors

Risks relating to our operation

- Our future success depends on our ability to retain our executives, key personnel in our R&D team, marketing team and to attract, retain and motivate qualified personnel.
- We face risks related to natural disasters, health epidemics, civil and social disruption and other outbreaks, which could significantly disrupt our operations.
- Security breaches, loss of data, and other disruptions could compromise sensitive information related to our business or prevent us from accessing critical information and expose us to liability, which could adversely affect our business and our reputation.
- Our insurance may not sufficiently cover, or may not cover at all, losses and liabilities we may encounter during the ordinary course of operation.
- We rely on third-party OEM service providers and raw materials suppliers for the manufacturing of our hardware devices. If these suppliers can no longer provide satisfactory services or products to us on commercially reasonable terms, or at all, our business and results of operations could be adversely affected.
- We rely on a limited number of suppliers for procurement of fundus cameras and our raw materials. A significant interruption in the operations of our suppliers could potentially affect our operations and any material misconduct or disputes against our suppliers could potentially harm our business and reputation.
- If we become a party to litigations, legal or contractual disputes, governmental investigations or administrative proceedings, our management's attention may be diverted and we may incur substantial costs and liabilities.
- Potential acquisition and investment opportunities may increase our capital requirements and subject us to risks and uncertainties.
- If we fail to implement our business strategies effectively, our business, financial condition and results of operations may suffer.
- We could be subject to criminal sanctions or civil and administrative penalties if we violate any applicable anti-kickback laws, false claims laws, physician payment transparency laws, fraud and abuse laws or similar healthcare and security laws and regulations in China and other jurisdictions.
- If our employees, third-party suppliers, consultants and commercial partners engage in bribery or corrupt practices or other improper activities, including non-compliance with regulatory standards and requirements, our reputation, our sales activities or the price of our Shares could be adversely affected.
- If we fail to maintain or implement an effective internal control system, we may not be able to manage our business effectively and may experience errors or information lapses affecting our business.
- Our business significantly depends on our reputation and customer perception of us. Negative publicity and allegations involving us, our Shareholders, Directors, officers, employees and business partners may affect our reputation and, as a result, our business, financial condition and results of operations may be negatively affected.
- Our leasehold interests in leased properties have not been registered with the relevant PRC governmental authorities as required by relevant PRC laws. The failure to register leasehold interests may expose us to potential fines.

Risks relating to intellectual property rights

- We may be unable to obtain and maintain effective patent and other intellectual property rights for our products and pipeline products, and the scope of such intellectual property rights obtained may not be sufficiently broad.
- Our patent rights relating to our products and technologies may be found to be invalid or unenforceable if challenged in court or before the National Intellectual Property Administration of the PRC or courts or related IP agencies in other jurisdictions.
- Patent protection depends on compliance with various procedural, regulatory and other requirements, and our patent protection could be reduced or eliminated due to non-compliance.
- Intellectual property rights do not necessarily protect us from all potential threats to our competitive advantage.
- Intellectual property and other laws and regulations are subject to change, which could diminish the value of our intellectual property and impair the intellectual property protection of our products.
- If we are unable to protect the confidentiality of our trade secrets, including unpatented know-how, technology and other proprietary information, our business and competitive position would be harmed.
- We may be subject to intellectual property infringement or misappropriation claims by third parties, which may force us to incur substantial legal expenses and, if determined adversely against us, could disrupt our business.
- Intellectual property litigation may lead to unfavorable publicity that harms our reputation and causes the market price of our common stock to decline.
- If our trademarks and trade names are not adequately protected, then we may not be able to build name recognition in our markets of interest and our business may be adversely affected.

Report of the Directors

Risks Relating to doing Business in China

- China's economic, political and social conditions, government policies may continue to affect our business.
- The PRC legal system embodies uncertainties that may affect the protection afforded to our business and our Shareholders.
- Gains on the sale of H Shares and dividends on the H Shares may be subject to PRC income taxes.
- Government control of currency conversion could have a material adverse effect on our business, results of operations, financial condition and prospects.
- Fluctuation in the value of the RMB may result in foreign currency exchange losses.
- We may experience difficulties in effecting service of legal process and enforcing judgments or bringing original actions in China or Hong Kong based on foreign laws against us and our Directors and management.
- Our operations are subject to and may be affected by changes in PRC tax laws and regulations.

However, the above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the Shares.

DIRECTORS' AND SUPERVISORS' BIOGRAPHICAL DETAILS

Details of Directors and Supervisors are set out in "Profiles of Directors, Supervisors and Management" of this annual report. Save as disclosed in that section, up to the date of this annual report, there were no changes to information which are required to be disclosed by Directors and Supervisors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

Report of the Directors

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Details of Directors' and Supervisors' service contracts are set out in "Appointment, Re-election and Removal of Directors and Supervisors" section of the Corporate Governance Report.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors, Supervisors or any of their respective associates was granted by the Company or its subsidiaries any right to acquire shares in, or debentures of, the Company or its subsidiary, or had exercised any such right during the Reporting Period.

COMPETING INTERESTS AND OTHER INTERESTS

None of the Directors or the Supervisors or any entity connected with them had any material interest, either directly or indirectly, in any contract, transaction or arrangement of significance to the Company's business to which the Company, any of its holding companies, any of its subsidiaries, fellow subsidiaries was a party subsisted at the end of the year or at any time during the Reporting Period.

During the Reporting Period, none of the Directors and their respective associates had an interest in a business which causes or may cause any significant competition with the business of the Company and any other conflicts of interest which any such person has or may have with the Company.

From time to time our non-executive Directors may serve on the boards of both private and public companies within the broader healthcare and biopharmaceutical industries. However, as these non-executive Directors are neither a member of our single largest group of Shareholders nor members of our executive management team, we do not believe that their interests in such companies as directors would render us incapable of carrying on our business independently from the other companies in which they may hold directorships from time to time.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received a confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and considers such Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

Report of the Directors

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five highest paid individuals are set out in Notes 8 and 9 to the consolidated financial statements.

None of the Directors or Supervisors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors or Supervisors or five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

For the year ended December 31, 2022, Directors or Supervisors were granted discretionary bonuses of a total sum of RMB82,000. Save as disclosed above, none of the Directors or Supervisors was paid discretionary bonuses for the year ended December 31, 2022.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the code provisions of the Corporate Governance Code as its own code of corporate governance. The Board is of the view that the Company has complied with all applicable code provisions of the Corporate Governance Code for the Reporting Period, except for the following:

Under the code provision C.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Under the current organization structure of the Company, Mr. ZHANG is the chairman of the Board, chief executive officer and founder of the Company. With extensive experience in the medical devices industry and having served in the Company since its establishment, Mr. ZHANG is in charge of overall management, business and strategic development of the Group. The Board considers that vesting the roles of the chairman of the Board and the chief executive officer in the same person is beneficial to the business operations and management of the Group. The balance of power and authority is ensured by the operation of the Board, which comprises experienced and diverse individuals. The Board currently comprises four executive Directors (including Mr. ZHANG), two non-executive Directors and three independent non-executive Directors, and therefore has a strong independent element in its composition.

The Board will continue to review and monitor the practices of the Company with an aim of maintaining a high standard of corporate governance and assess whether separation of the roles of chairman of the Board and chief executive officer is necessary.

The corporate governance report is set out on pages 28 to 43 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

It is our corporate and social responsibility in promoting a sustainable and environmental-friendly environment. We strive to minimize our environmental impact and to build our corporation in a sustainable way.

We are subject to environmental protection and occupational health and safety laws and regulations in China. In 2022, we complied with the relevant environmental and occupational health and safety laws and regulations in China and we did not have any incidents or complaints, which had a material and adverse effect on our business, financial condition or results of operations. The 2022 Environmental, Social and Governance Report of the Company prepared in accordance with Appendix 27 of the Listing Rules is set out on pages 44 to 84 of this annual report.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as its own code of conduct regarding dealings in the securities of the Company by the Directors, Supervisors and the Company's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company's securities. Having made specific enquiry of all Directors and Supervisors, all of them have confirmed that they have complied with the Model Code during the Reporting Period and up to the date of this annual report. No incident of non-compliance of the Model Code by the employees who are likely to be in possession of inside information of the Company was noted by the Company.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group's operations are carried out in the PRC, while its Shares are listed on the Stock Exchange. The businesses operated by the Group are subject to the laws of relevant jurisdiction in the PRC and Hong Kong. During the Reporting Period and up to the date of this annual report, as far as the Board and management are aware, the Group has complied with relevant laws and regulations that have a significant impact on the business and operation of the Group in the applicable jurisdictions.

During the Reporting Period and up to the date of the annual report, neither the Group nor, to the best of our knowledge, the Directors, Supervisors and senior management of the Company were subject to any investigation initiated or administrative penalties imposed by the CSRC, banned from entering the market, identified as inappropriate candidates, publicly condemned by stock exchanges, subject to mandatory measures, transferred to judicial organs or held criminally responsible, and none were involved in any other litigation, arbitration or administrative proceedings which would have a material adverse impact on our business, financial condition or results of operations.

Report of the Directors

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As of December 31, 2022, the interests and short positions of the Directors, Supervisors or chief executives of the Company and their associates in any of the Shares, underlying Shares and debentures of our Company or its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests in Shares or underlying Shares of the Company

Name of Director	Position	Nature of interest	Number and class of Shares	Long Position/ Short Position	Approximate percentage of interest in the relevant class of Shares of our Company	Approximate percentage of interest in our Company ⁽¹⁾
Mr. Zhang	Executive Director and chief executive officer	Beneficial owner	17,248,854 Domestic Shares	Long Position	22.22%	16.65%
		Interest in a controlled corporation ⁽²⁾	5,331,308 Domestic Shares	Long Position	6.87%	5.15%
		Interest of a party to an agreement ⁽³⁾	2,796,117 Domestic Shares	Long Position	3.60%	2.70%
Mr. Gao	Executive Director	Beneficial owner	883,357 Domestic Shares	Long Position	1.14%	0.85%
		Interest of a party to an agreement ⁽⁴⁾	24,492,922 Domestic Shares	Long Position	31.55%	23.65%

Notes:

- (1) The percentage is calculated based on the number of relevant class of Shares in issue as of December 31, 2022.
- (2) As of December 31, 2022, Mr. Zhang was the general partner of Airdoc Universe. Therefore, Mr. Zhang was deemed to be interested in the Shares held by Airdoc Universe under the SFO.
- (3) As of December 31, 2022, pursuant to the Concert Party Agreement, Mr. Zhang agreed to act in concert with Mr. Gao and Mr. Chen by aligning their votes at Shareholders' meetings of the Company. Therefore, Mr. Zhang was deemed to be interested in an aggregate of 2,796,117 Domestic Shares, consisting of 883,357 Domestic Shares held by Mr. Gao and 1,912,760 Domestic Shares held by Mr. Chen under the SFO.
- (4) As of December 31, 2022, pursuant to the Concert Party Agreement, Mr. Gao agreed to act in concert with Mr. Zhang and Mr. Chen by aligning their votes at Shareholders' meetings of the Company. Therefore, Mr. Gao was deemed to be interested in an aggregate of 24,492,922 Domestic Shares, consisting of 22,580,162 Domestic Shares held by Mr. Zhang and 1,912,760 Domestic Shares held by Mr. Chen under the SFO.

Report of the Directors

Save as disclosed above, as of December 31, 2022, to the best knowledge of the Company, none of the Directors, Supervisors or chief executives of the Company or their associates had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of December 31, 2022, so far as the Directors or chief executives of the Company are aware, the following persons (other than the Directors or chief executives of the Company or their associates) had interests and/or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Interests in Shares or underlying Shares of the Company

Name of Substantial Shareholders	Nature of interest	Number of Shares	Class of Shares	Long Position/ Short Position	Approximate percentage of interest in the relevant class of Shares of our Company	Approximate percentage of interest in our Company
Mr. Chen ⁽¹⁾	Beneficial owner	1,912,760	Domestic Shares	Long Position	2.46%	1.85%
	Interest of a party to an agreement	23,463,519	Domestic Shares	Long Position	30.22%	22.65%
Fosun International ⁽²⁾	Interest in a controlled corporation	10,386,756	Domestic Shares	Long Position	13.38%	10.03%
Yadong Beichen ⁽²⁾⁽³⁾	Beneficial owner	10,272,503	Domestic Shares	Long Position	13.23%	9.92%
	Interest of a party to an agreement	114,253	Domestic Shares	Long Position	0.15%	0.11%
Ping An Insurance ⁽⁴⁾	Interest in a controlled corporation	7,169,737	Domestic Shares	Long Position	9.24%	6.92%
Ping An Healthtech ⁽⁴⁾	Beneficial owner	7,169,737	Domestic Shares	Long Position	9.24%	6.92%
Tencent Holdings Limited ⁽⁵⁾	Interest in a controlled corporation	5,942,699	Domestic Shares	Long Position	7.65%	5.74%
Shiji Sisu ⁽⁵⁾	Beneficial owner	5,942,699	Domestic Shares	Long Position	7.65%	5.74%
Lake Bleu Capital (Hong Kong) Limited ⁽⁶⁾	Investment manager	5,049,236	H Shares	Long Position	19.47%	4.88%
Lake Bleu Prime ⁽⁶⁾	Beneficial owner	3,477,700	H Shares	Long Position	13.41%	3.36%
LBC Sunshine ⁽⁶⁾	Beneficial owner	1,571,536	H Shares	Long Position	6.06%	1.52%

Report of the Directors

Name of Substantial Shareholders	Nature of interest	Number of Shares	Class of Shares	Long Position/ Short Position	Approximate percentage of interest in the relevant class of Shares of our Company	Approximate percentage of interest in our Company
China Life Franklin Asset Management Co., Limited ⁽⁷⁾	Investment manager	3,107,000	H Shares	Long Position	11.98%	3.00%
China Life Insurance (Group) Company ⁽⁷⁾⁽⁸⁾	Beneficial owner	155,400	H Shares	Long Position	0.60%	0.15%
	Interest in a controlled corporation	2,951,600	H Shares	Long Position	11.38%	2.85%
China Life Insurance (Overseas) Co., Ltd. ⁽⁸⁾	Beneficial owner	2,951,600	H Shares	Long Position	11.38%	2.85%
SHI Yi ⁽⁹⁾	Interest in a controlled corporation	2,607,336	H Shares	Long Position	10.05%	2.52%
LAV ImmOn Hong Kong Limited ⁽⁹⁾	Beneficial owner	1,571,536	H Shares	Long Position	6.06%	1.52%
UBS Group AG ⁽¹⁰⁾	Interest in a controlled corporation	1,649,699	H Shares	Long Position	6.36%	1.59%
		113,000	H Shares	Short Position	0.44%	0.11%
UBS AG ⁽¹⁰⁾	Beneficial owner	1,629,700	H Shares	Long Position	6.28%	1.57%
		113,000	H Shares	Short Position	0.44%	0.11%

Notes:

- As of December 31, 2022, pursuant to the Concert Party Agreement, Mr. Chen agreed to act in concert with Mr. Zhang and Mr. Gao by aligning their votes at Shareholders' meetings of the Company. Therefore, Mr. Chen was deemed to be interested in an aggregate of 23,463,519 Domestic Shares, consisting of 22,580,162 Domestic Shares held by Mr. Zhang and 883,357 Domestic Shares held by Mr. Gao under the SFO.
- As of December 31, 2022, Yadong Beichen was held by Shanghai Ruikun Venture Capital Investment Co., Ltd. (上海銳坤創業投資有限公司) ("Shanghai Ruikun") and Shanghai Fosun Industrial Investment Co., Ltd. (上海復星產業投資有限公司) ("Shanghai Fosun") as to 64.1% and 35.9%, respectively. Shanghai Ruikun was owned as to 98% by Shanghai Fosun High Technology Group Finance Co., Ltd. (上海復星高科技(集團)有限公司) ("Fosun High Technology"), which was wholly owned by Fosun International Limited (復星國際有限公司) ("Fosun International"), a company whose shares are listed on the Stock Exchange (stock code: 656). Shanghai Fosun was wholly owned by Fosun High Technology. Therefore, each of Shanghai Ruikun, Shanghai Fosun, Fosun High Technology and Fosun International was deemed to be interested in the 10,386,756 Domestic Shares in which Yadong Beichen was interested under the SFO.
- As of December 31, 2022, pursuant to the voting proxy arrangement between Ningbo Xingbangyu Business Management Consulting Partnership (Limited Partnership)* (寧波星邦鬱企業管理諮詢合夥企業(有限合夥)) ("Xingbangyu") and Yadong Beichen, Xingbangyu conferred the voting right of the Shares held by it on Yadong Beichen. Therefore, Yadong Beichen was deemed to be interested in the 114,253 Domestic Shares held by Xingbangyu under the SFO.

Report of the Directors

- (4) As of December 31, 2022, Ping An Healthtech was wholly owned by Ping An Technology (Shenzhen) Co., Ltd. (平安科技(深圳)有限公司) (“**Ping An Technology**”), which was owned by Ping An Insurance (Group) Company of China, Ltd. (中國平安保險(集團)股份有限公司) (“**Ping An Insurance**”), a company whose shares are listed on the Stock Exchange (stock code: 2318) and the Shanghai Stock Exchange (stock code: 601318), and Shenzhen Ping An Financial Technology Consulting Co., Ltd. (深圳平安金融科技諮詢有限公司) (“**Ping An Financial**”) as to 37.7% and 62.3%, respectively. Therefore, each of Ping An Technology, Ping An Insurance and Ping An Financial was deemed to be interested in the 7,169,737 Domestic Shares held by Ping An Healthtech under the SFO.
- (5) As of December 31, 2022, Beijing Shi Ji Si Su Technology Co., Ltd. (北京世紀思速科技有限公司) (“**Shiji Sisu**”) was wholly owned by Beijing Sogou Information Service Co., Ltd (北京搜狗信息服務有限公司) (“**Sogou Information**”), which was owned as to 55% and 45% by Guangxi Tencent Venture Capital Co., Ltd. (廣西騰訊創業投資有限公司) (“**Guangxi Tencent**”) and Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司) (“**Tencent Computer**”), respectively. Each of Guangxi Tencent and Tencent Computer is a subsidiary of Tencent Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 700). Therefore, each of Sogou Information, Guangxi Tencent, Tencent Computer and Tencent Holdings Limited was deemed to be interested in the 5,942,699 Domestic Shares held by Shiji Sisu under the SFO.
- (6) As of December 31, 2022, Lake Bleu Capital (Hong Kong) Limited was the investment manager of Lake Bleu Prime Healthcare Master Fund Limited (“**Lake Bleu Prime**”) and LBC Sunshine Healthcare Fund II. Limited Partnership (“**LBC Sunshine**”), which held 3,477,700 H Shares and 1,571,536 H Shares, respectively. Therefore, Lake Bleu Capital (Hong Kong) Limited was deemed to be interested in the 5,049,236 H Shares in which Lake Bleu Prime and LBC Sunshine were interested under the SFO.
- (7) As of December 31, 2022, China Life Franklin Asset Management Co., Limited was the investment manager of China Life Insurance (Group) Company and China Life Insurance (Overseas) Co., Ltd., which held 155,400 H Shares and 2,951,600 H Shares, respectively. Therefore, China Life Franklin Asset Management Co., Limited was deemed to be interested in the 3,107,000 H Shares in which China Life Insurance (Group) Company and China Life Insurance (Overseas) Co., Ltd. were interested under the SFO.
- (8) As of December 31, 2022, China Life Insurance (Overseas) Co., Ltd. was wholly owned by China Life Insurance (Group) Company. Therefore, China Life Insurance (Group) Company was deemed to be interested in the 2,951,600 H Shares held by China Life Insurance (Overseas) Co., Ltd. under the SFO.
- (9) As of December 31, 2022, LAV Star Limited was wholly owned by LAV Fund VI, L.P. and LAV Star Opportunities Limited was wholly owned by LAV Fund VI Opportunities, L.P. (together with LAV Fund VI, L.P., collectively, the “**LAV Fund VI**”). LAV Star Limited and LAV Star Opportunities Limited were associated with LAV ImmOn Hong Kong Limited. LAV ImmOn Hong Kong Limited and LAV Fund VI were ultimately controlled by Shi Yi. Therefore, Shi Yi was deemed to be interested in an aggregate of 2,607,336 H Shares, consisting of 517,900 H Shares held by LAV Star Limited, 517,900 H Shares held by LAV Star Opportunities Limited and 1,571,536 H Shares held by LAV ImmOn Hong Kong Limited under the SFO.
- (10) As of December 31, 2022, UBS AG and UBS Switzerland AG were wholly owned by UBS Group AG. Therefore, UBS Group AG was deemed to be interested in the Shares held by UBS AG and UBS Switzerland AG under the SFO.

Save as disclosed above, as of December 31, 2022, to the best knowledge of the Company, no person, other than the Directors, Supervisors or chief executives of the Company whose interests are set out in the subsection above, had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

Report of the Directors

Use of Net Proceeds from Global Offering

The Company's Shares were listed on the Stock Exchange on November 5, 2021. After finalization and the settlement of the listing expenses, including the relevant expenses incurred by work done by professional parties, the finalized net proceeds from the Global Offering amounted to HK\$1,550.7 million. Accordingly, the planned applications of the net proceeds as disclosed in the section headed "Future Plans and Use of Proceeds" are adjusted pro rata as set forth in the table below. The planned applications and allocation percentage remained unchanged. As of December 31, 2022, approximately HK\$304.7 million of the net proceeds of the Global Offering had been utilized as follows:

Use of proceeds	Planned applications (HK\$ million)	Percentage of total net proceeds (%)	Actual usage for the Reporting Period (HK\$ million)	Actual usage up to December 31, 2022 (HK\$ million)	Unutilized net proceeds as of December 31, 2022 (HK\$ million)	Expected time of full utilization of remaining balance
Optimization, development and commercialization of our Core Product	775.4	50%	144.1	144.2	631.2	2026
Research and development and manufacturing of our hardware devices	294.6	19%	57.3	57.3	237.3	2026
Ongoing and future research and development of our health risk assessment solutions	155.1	10%	36.3	36.3	118.8	2026
Development of our portfolio to diversify our AI-empowered retina-based early detection, diagnosis and health risk assessment solutions	93.0	6%	15.1	15.1	77.9	2024
Collaborations with academic and research institutions on joint research projects	77.5	5%	5.5	5.5	72.0	2024
Working capital and other general corporate purposes	155.1	10%	40.3	46.3	108.8	2024
Total	1,550.7	100%	298.6	304.7	1,246.0	

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year ended December 31, 2022.

APPLICATION FOR THE H SHARE FULL CIRCULATION

During the Reporting Period, the Company applied to the CSRC for the H Share Full Circulation. Such application was approved by the CSRC in March 2023. The Company will make further announcement(s) on the progress of the H Share Full Circulation.

For further details, please refer to the Company's circular and announcements published on the websites of the Stock Exchange and the Company dated October 25, 2022, November 4, 2022 and March 28, 2023, respectively.

CHANGE IN CONSTITUTIONAL DOCUMENTS

On March 17, 2022 and October 10, 2022, the Board resolved to approve the housekeeping amendments to the Articles of Association. For further details, please refer to the Company's announcements published on the websites of the Stock Exchange and the Company dated March 17, 2022 and October 10, 2022, respectively.

Save as disclosed above, there was no significant change to the constitutional documents of the Company for the year ended December 31, 2022.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details on related party transactions of the Group for the year ended December 31, 2022 are set out in Note 25 to the consolidated financial statements. None of the related party transactions constitute a connected transaction or continuing connected transaction which is subject to the Shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules. There was no connected transaction nor continuing connected transaction of the Group which has to be disclosed in accordance with the Chapter 14A of the Listing Rules during the Reporting Period (2021: nil).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the PRC that would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's listed securities.

SHARE INCENTIVES SCHEME

Incentives granted prior to the Listing

Airdoc Universe, Suqian Airdoc and Suqian Zhongyou were established in the PRC as our employee incentive platforms, and respectively held approximately 5.15%, 4.02% and 2.24% of the total issued Shares of the Company as of the date of this annual report. For further details of the employee incentive platforms, please refer to the Prospectus.

Report of the Directors

2022 Equity Incentive Scheme

Key terms of the scheme

On January 13, 2023, the Board resolved to adopt the 2022 Equity Incentive Scheme, which was subsequently approved by the Shareholders at the extraordinary general meeting of the Company held on March 30, 2023. The key terms of the Scheme are set out below.

(a) Purpose of the Scheme

The Scheme aims to:

- (i) optimize the performance review mechanism and compensation policy of the Company, attract, retain and incentivize the talents who are needed to achieve the strategic objectives of the Company;
- (ii) align the granting to the Participants with the performance of the Company and the behavior of the Participants with the strategic objectives of the Company, and promote the achievement of the strategic objectives of the Company; and
- (iii) establish long-term orientation for business management and operation, urge the core middle-to-high level management to focus on the long-term development of the Company and to avoid short-sighted business management and operation, so as to realize dual effects of motivation and discipline.

(b) Term of the Scheme

Unless terminated earlier in accordance with the Scheme Rules, the Scheme shall be valid and effective for a period of five (5) years commencing from March 30, 2023, namely the date on which the Scheme is approved by the Shareholders (the “**Scheme Period**”), after which no further Incentives shall be granted. However, as long as there are any Incentives that have been granted but not yet vested before the expiry of the Scheme, the Scheme Period shall be extended until the vesting of such Incentives takes effect.

(c) Scheme Limit

The maximum number of Incentive Shares grantable under the Scheme shall not exceed 6,214,080 H Shares representing approximately 6% of the total issued Shares as at the date of this report. Save as otherwise specified under the Scheme Rules, no further grant shall be made by the Company which would otherwise result in the total number of H Shares (other than Incentive Shares lapsed in accordance with the Scheme Rules) involved in all grants made under the Scheme exceeding the Scheme Limit without the approval of the Shareholders. The maximum entitlement of each Participant shall be determined by the Board.

(d) Source of Fund and Incentive Shares

The Incentive Shares will be satisfied by the H Shares to be purchased on market by trustee from the public market. The purchase price shall not exceed the average closing price of the H Shares as stated in the Stock Exchange’s daily quotation sheets for the fifteen business days immediately preceding the date of purchase. The purchase of H Shares under the Scheme shall be funded by the Company. To obtain the Incentive Shares, the Participants may need to pay the Grant Price at the time of the grant.

Report of the Directors

(e) Vesting of Incentives

Subject to the relevant provisions under the Scheme, vesting of Incentives means that the economic interests of Incentive Shares are in fact vested in Participants. The vesting conditions and the vesting schedule may be determined by the Board from time to time during the Scheme Period and subject to all applicable laws, regulations and ordinances.

(f) Scope of Participants

Participants eligible to participate in the Scheme are management personnel and key employees who contribute to the operating results and future development of the Group and comply with laws, regulations and rules of the Group, which include Directors (if any), senior management and key employees of the Group. The Board or its authorized persons may, in accordance with the Company Law, the Securities Law and other applicable laws, regulations, regulatory documents, the Listing Rules as amended from time to time and the articles of association of the Company, from time to time select Participants and according to the actual needs of the Company, and grant them Incentives within the Incentive Term in compliance with such terms and conditions of the Incentives as determined by the Board or its authorized persons from time to time.

No person shall become a Participant under the Scheme if he or she:

- (i) has been identified by the competent authorities as an inappropriate candidate for a listed company's 2022 Equity Incentive Scheme or similar scheme within the last 12 months;
- (ii) has been punished by the securities regulatory authorities or prohibited from trading of securities for any material violation of laws or regulations within the last 12 months; or
- (iii) is prohibited from serving as a director or the senior management of the company under the Company Law.

The eligibility of the Participants shall be determined by the Board or its authorized persons.

(g) Granting Price

After the Scheme is approved by the Shareholders, the Board or its authorized persons may determine the Grant Price from time to time during the Scheme Period.

Further details of the 2022 Equity Incentive Scheme are set out in the announcement and circular of the Company dated January 13, 2023 and March 10, 2023, respectively.

Grant under the scheme

On January 13, 2023, the Board resolved to grant a total of 3,107,040 Incentive Shares to Mr. Zhang pursuant to the terms of the 2022 Equity Incentive Scheme, conditional upon the approval of the 2022 Equity Incentive Scheme by the Shareholders. The Incentives were granted to Mr. Zhang for nil consideration. Pursuant to the grant agreement, twenty-five percent (25%) of the Incentive Shares granted to Mr. Zhang shall vest on December 31, 2023 and the rest of the Incentive Shares granted to Mr. Zhang will equally vest yearly in three years thereafter. The closing price of the H Share immediately before the date of grant was HK\$12.2 per H Share. The fair value of the Incentives granted to Mr. Zhang at the date of grant was HK\$41.7 million, calculated based on the closing price of the H Shares of HK\$13.42 per H Share as stated in the Stock Exchange's daily quotation sheet on the date of grant multiplied by the number of Incentive Shares granted. As of the date of this annual report, the Company did not purchase any H Shares for the purpose of satisfying the Incentives granted. As of the same date, none of the Incentives granted were canceled or lapsed. Save as disclosed, the Company did not make any other grants under the 2022 Equity Incentive Scheme as of the date of this annual report.

Report of the Directors

As the Incentives were granted to Mr. Zhang pursuant to his service contract with the Group and form part of his remuneration package thereunder, the grant of Incentives to Mr. Zhang is exempt from the reporting, announcement and independent Shareholders' approval requirements under Rules 14A.73(6) and 14A.95 of the Listing Rules.

As of the date of this annual report, save as disclosed above, the Company did not have any other share incentive scheme or make any grant that is subject to the disclosure requirements under Chapter 17 of the Listing Rules.

EMPLOYEE AND REMUNERATION POLICIES

As of December 31, 2022, the Group had 275 full-time employees (2021: 335).

The number of employees employed by the Group varies from time to time depending on need. The remuneration package of our employees includes salary and bonus, which are generally determined by their qualifications, industry experience, position and performance. The Company makes contributions to social insurance and housing provident funds as required by the PRC laws and regulations.

The Remuneration and Appraisal Committee of the Company was set up for reviewing the Company's emolument policy and structure for all remuneration of the Directors, Supervisors and senior management of the Company, having regard to the Company's operating results, individual performance of the Directors, Supervisors and senior management and comparable market practices.

The total remuneration cost incurred by the Group for the year ended December 31, 2022 was RMB216.0 million (2021: RMB129.5 million). The remuneration package of our employees includes salary, bonus and equity incentives, which are generally determined by their qualifications, industry experience, position and performance. We make contributions to social insurance and housing provident funds as required by the PRC laws and regulations.

For the 12 months ended December 31, 2022, the Group did not experience any material labor disputes or strikes that may have a material and adverse effect on our business, financial condition or results of operations, or any difficulty in recruiting employees.

PENSION SCHEME

The Company and all its subsidiaries are located in the PRC. The employees of the Group are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Details of the pension scheme of the Group are set out in Note 6(b) to the consolidated financial statements. During the Reporting Period, there were no forfeited contributions under the Group's pension scheme, and there were no forfeited contributions that may be used by the Group to reduce the existing level of contribution.

MAJOR CUSTOMERS AND SUPPLIERS

For the Reporting Period,

- (i) the Group's largest supplier accounted for 33.18% (2021: 15.61%) of its total purchases, and the five largest suppliers accounted for 69.76% of its total purchases (2021: 49.44%); and
- (ii) the Group's largest customer accounted for 32.16% (2021: 24.13%) of its total sales, and the five largest customers accounted for 58.62% of its total sales (2021: 65.96%).

Report of the Directors

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

KEY RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that various stakeholders including suppliers, employees, Shareholders and other business associates are key to Group's success. The Group strives to achieve corporate sustainability through engaging, collaborating, and cultivating strong relationship with them.

Relationship with Our Employees

We endeavor to cultivate talented and loyal employees by treating our employees with dignity, respect and fairness. We conduct new employee training, as well as professional and compliance training programs for employees. We enter into employment contracts with our employees to cover matters such as wages, benefits and grounds for termination. The remuneration package of our employees usually includes salary, bonus and share option incentives, which are generally determined by their qualifications, industry experience, position and performance. We make contributions to social insurance and housing provident funds as required by the PRC laws and regulations.

Relationship with Shareholders

We recognize the importance of protecting the interests of the Shareholders and of having effective communication with them. We believe communication with the Shareholders is a two-way process and have thrived to ensure the quality and effectiveness of information disclosure, maintain regular dialogue with the Shareholders and listen carefully to the views and feedback from the Shareholders. This has been done through general meetings, corporate communications, annual reports and results announcements.

FINANCIAL SUMMARY

A summary of the audited consolidated results and the assets and liabilities of the Group for the last four financial years, as extracted from the audited consolidated financial statements, is set out in this annual report. This summary does not form part of the audited consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as of December 31, 2022 are set out in Note 26 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group for the year ended December 31, 2022 are set out in Note 11 to the consolidated financial statements.

SHARE CAPITAL AND SHARES ISSUED

Details of movements in the share capital of the Company for the year ended December 31, 2022 and details of the Shares issued for the year ended December 31, 2022 are set out in Note 23 to the consolidated financial statements.

Report of the Directors

DEBENTURE ISSUED

The Group did not issue any debenture for the year ended December 31, 2022 (2021: nil).

EQUITY-LINKED AGREEMENTS

No equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Reporting Period or subsisted at the end of the Reporting Period.

PERMITTED INDEMNITY PROVISION

The Company has maintained appropriate liability insurance policies for its Directors, Supervisors and senior management during the Reporting Period.

DISTRIBUTABLE RESERVES

As of December 31, 2022, our Company did not retain any profits under International Financial Reporting Standards as reserves available for distribution to our equity Shareholders.

Details of movements in the reserves of the Group and the Company during the year ended December 31, 2022 are set out in the consolidated statement of changes in equity in Note 23 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

As of December 31, 2022, the Group did not have any bank loans or other borrowings (December 31, 2021: nil).

CONVERTIBLE BONDS

As of December 31, 2022 and up to the date of this annual report, the Company has not issued any convertible bonds (December 31, 2021: nil).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

As of December 31, 2022, the Group held a significant investment in a segregated investment portfolio of New China Innovation Fund SPC, which was a wealth management product subscribed for by the Company at a total consideration of US\$15 million in January 2022 (the “**Product**”). The Product is a low-risk and principal-guaranteed product with a fixed return of 0.5% per annum and an expected floating return ranging from 1% to 2% per annum. The fair value of the Product was US\$15.1 million as of December 31, 2022, which represented 6.0% of the Group’s total assets. As of December 31, 2022, this product recorded a net book return of US\$70,065.

New China Innovation Fund SPC was incorporated in Cayman Islands on June 10, 2015 and is principally engaged in equity investments. The risk of the Product is comparably low given that the principal is guaranteed, while the expected return of the Product is higher than those of the fixed term deposit provided by commercial banks. The Company is of the view that such investment is a reasonable and efficient way to manage the Group’s temporary idle funds, which will enhance the overall capital gain of the Group, and is consistent with the core objectives of the Group to ensure capital safety and liquidity.

Report of the Directors

Save as disclosed above, there were no other significant investments nor material acquisitions or disposals of subsidiaries and affiliated companies by the Group for the Reporting Period.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As of the date of this annual report, we did not materialize any plan for material investments or acquisition of capital assets. We will make further announcement in accordance with the Listing Rules, where applicable, if any investments and acquisition opportunities materialize.

CAPITAL EXPENDITURES

The Company's capital expenditures primarily consist of purchase and manufacturing of fundus camera, furniture and others and leasehold improvement. For the year ended December 31, 2022, the Company's capital expenditure was RMB9.3 million (2021: RMB28.0 million).

CAPITAL COMMITMENT

As of December 31, 2022, we did not have any capital commitments (December 31, 2021: nil).

CONTINGENT LIABILITIES

As of December 31, 2022, we did not have any contingent liabilities (December 31, 2021: nil).

CHARGE ON ASSETS

As of December 31, 2022, we charged a deposit of RMB150.0 million to secure the bills of a third party, which was not further substantiated and accordingly the charge was subsequently released after the Reporting Period (December 31, 2021: nil). Other than that, we did not have any charge on assets.

CHARITABLE DONATIONS

During the year ended December 31, 2022, the Group did not make any charitable donations (2021: RMB50,000).

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration for the year ended December 31, 2022. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the year ended December 31, 2022.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as of the date of this annual report, the Company has maintained the prescribed percentage of public float under the Listing Rules.

Report of the Directors

FOREIGN EXCHANGE EXPOSURE

Our financial statements are expressed in RMB, but certain of its cash and cash equivalents are denominated in foreign currencies, and are exposed to foreign currency risk. We have established a foreign exchange exposure monitoring policy and will consider hedging against significant foreign exchange exposure of the Group should the need arise.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely Mr. NG Kong Ping Albert, Dr. HUANG Yanlin and Dr. WU Yangfeng. Mr. NG Kong Ping Albert, being the chairman of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Company and overseeing the audit process. The Audit Committee has reviewed together with the management and external auditor the accounting principles and policies adopted by the Company and the audited consolidated financial statements for the year ended December 31, 2022.

AUDITOR

The consolidated financial statements of the Group have been audited by KPMG, who will retire and, being eligible, offer themselves for re-appointment at the annual general meeting of the Company.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The date of the annual general meeting of the Company and the closure of the register of members of the Company will be announced in due course.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

During the Reporting Period, the Group did not have any controlling shareholder. The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

All references above to other sections, reports or notes in this report form part of this annual report.

By order of the Board

Beijing Airdoc Technology Co., Ltd.

Mr. ZHANG Dalei

Chairman of the Board

Beijing, the PRC, March 23, 2023

Report of the Supervisors

With the joint efforts of all Supervisors of Beijing Airdoc Technology Co., Ltd. (the “**Company**”), in accordance with the laws and regulations such as the Company Law of the People’s Republic of China (the “**Company Law**”) and the provisions of the Articles of Association and the Rules of Procedures for Meeting of the Board of Supervisors, the Board of Supervisors, in the spirit of being responsible to all shareholders of the Company, conscientiously performed the duties and powers granted by relevant laws and regulations, actively and effectively carried out the work, supervised the compliance of the operation of the Company and the performance of duties by Directors and senior management of the Company, and safeguarded the legitimate rights and interests of the Company as well as its Shareholders.

The work of the Board of Supervisors in 2022 and the work plan for 2023 are hereby reported as follows:

I. WORK OF THE BOARD OF SUPERVISORS IN 2022

In 2022, the Board of Supervisors convened and held 2 meetings of the Board of Supervisors pursuant to applicable laws. The notice, convening and voting procedures for the meetings were in compliance with the requirements of the Company Law and other laws and regulations as well as the Articles of Association and the Rules of Procedures for the Board of Supervisors. The work of the Board of Supervisors mainly included:

1. Attend general meetings of the Shareholders of the Company to understand the operation of the general meetings;
2. Attend the meetings of the Board of Directors of the Company to understand the operation of the Board of Directors;
3. Review the financial reports of the Company and the audit reports submitted by accounting firm.

II. OPINIONS ON THE BOARD OF SUPERVISORS DURING THE REPORTING PERIOD

(i) Compliance of the Operation

The members of the Board of Directors and senior management of the Company operated in strict compliance with the relevant provisions of the Company Law and the Articles of Association, diligently and responsibly performed their duties with a scientific and reasonable decision-making process, earnestly implemented each resolution of the general Shareholders’ meetings, and they were not aware of any illegal act or actions against the interests of the Company.

(ii) Financial Position of the Company

The Board of Supervisors reviewed and agreed with the audited consolidated financial statements for the year ended December 31, 2022, and believed that the financial statements of the Company has given an objective and true view of the financial position and the operating results of the Company and is free of false representations, misleading statements and material omissions.

Report of the Supervisors

(iii) Internal Control

Based on the relevant regulations of the Company Law and the Articles of Association together with its actual condition, the Company established a comprehensive internal management and internal control system, which ensures the normal operation of the Company. The Company has a complete internal control organization and an internal audit department with sufficient staff to ensure full and effective implementation and supervision of the Company.

(iv) Integrity and Self-discipline

The Directors and senior management of the Company strictly regulated themselves to abide by the laws and regulations with honesty and self-discipline, and no illegal acts due to personal interests were found.

III. WORK PLAN FOR 2023

The Board of Supervisors will further regulate the work of the Board of Supervisors in accordance with the Company Law, the Articles of Association as well as relevant laws and regulations, reinforce its supervision and safeguard the interests of the Company and its Shareholders:

- (1) Attend general meetings of the Shareholders of the Company and pay close attention to the operation of the general meetings as well as the Company's business decisions to ensure normal operation of the Company.
- (2) Attend the meetings of Board of Directors of the Company and continue to actively participate in various work meetings organized and convened by the Company to keep abreast of the operation of the Board of Directors and the development of the Company's operation to ensure the standardized operation of the Company.
- (3) Further reinforce the supervision and inspection of the financial position of the Company.
- (4) Supervise the compliance and due diligence of the Directors and senior management of the Company.

The Board of Supervisors
Beijing Airdoc Technology Co., Ltd.

March 23, 2023

Independent Auditor's Report



To the shareholders of Beijing Airdoc Technology Co., Ltd.
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Beijing Airdoc Technology Co., Ltd. (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages 116 to 178, which comprises the consolidated statement of financial position of the Group as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standard on Auditing (“**HKSAs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (“**the Code**”) together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matter is the matter that, in our professional judgement, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Revenue recognition

Refer to Note 4 to the consolidated financial statements and the accounting policies in Note 2(s).

The Key Audit Matter

How the matter was addressed in our audit

Revenue recognition

The Group's revenue primarily derived from provision of artificial intelligence (AI)-based software solutions to its customers.

Our audit procedures to assess the recognition of revenue from the provision of AI-based software solutions during the year included the following:

The Group's revenue is mainly generated from subscription contracts under which a customer either pays a fee for a predetermined or an unlimited number of transactions during the subscription period or pays a fixed fee for each transaction during the subscription period.

Revenue from the subscription contracts with a predetermined number of transactions or a fixed fee for each transaction is recognised when the services are provided, using the unit price agreed in the contract multiplied by the number of transactions provided. Revenue from the subscription contracts with an unlimited number of transactions is recognised on a straight-line basis during the subscription period.

We identified the recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Group and is, therefore, subject to possible manipulation through the timing of revenue recognition to meet targets or expectations.

- assessing the design, implementation and operating effectiveness of key internal controls over revenue recognition;
- on a sample basis, agreeing the underlying information, including the contract price, subscription period and number of transactions in calculating revenue recognised during the year to the subscription contracts and acknowledgement of services with customers; and recalculating the related revenue;
- obtaining confirmations, on a sample basis, from customers to confirm the contract price and number of transactions provided during the year; and
- inspecting journal entries relating to revenue which met specific risk-based criteria, enquiring of management the reasons for posting such adjustments and checking the details of the adjustments to relevant underlying documentation.

Independent Auditor's Report

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Independent Auditor's Report

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yu Wai Sum.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23 March 2023

Consolidated Statement of Profit or Loss

For the year ended 31 December 2022

(Expressed in RMB)

	Note	2022 RMB'000	2021 RMB'000
Revenue	4	113,657	115,181
Cost of sales		(57,805)	(44,940)
Gross profit		55,852	70,241
Other net income	5	67,520	1,448
Research and development expenses		(125,594)	(64,265)
Selling expenses		(99,999)	(72,586)
Administrative expenses		(80,080)	(77,067)
Loss from operations		(182,301)	(142,229)
Finance costs	6(a)	(439)	(298)
Loss before taxation	6	(182,740)	(142,527)
Income tax	7(a)	—	—
Loss for the year		(182,740)	(142,527)
Attributable to:			
Equity shareholders of the Company		(180,003)	(142,634)
Non-controlling interests		(2,737)	107
Loss for the year		(182,740)	(142,527)
Loss per share	10		
Basic and diluted (RMB)		(1.75)	(1.76)

The notes on pages 122 to 178 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

(Expressed in RMB)

Note	2022 RMB'000	2021 RMB'000
Loss for the year	(182,740)	(142,527)
Other comprehensive income for the year, net of nil tax Item that will not be reclassified to profit or loss:		
Equity investments at FVOCI — net movement in fair value reserves (non-recycling)	(333)	—
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign subsidiaries	343	55
Other comprehensive income for the year	10	55
Total comprehensive income for the year	(182,730)	(142,472)
Attributable to:		
Equity shareholders of the Company	(179,993)	(142,579)
Non-controlling interests	(2,737)	107
Total comprehensive income for the year	(182,730)	(142,472)

The notes on pages 122 to 178 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2022

(Expressed in RMB)

	Note	31 December 2022 RMB'000	31 December 2021 RMB'000
Non-current assets			
Property, plant and equipment	11	33,076	44,959
Intangible assets	12	6,828	—
Other non-current assets		3,914	—
Other financial assets	13	20,319	3,607
		64,137	48,566
Current assets			
Inventories	14	29,571	7,683
Trade receivables	15	63,877	34,043
Deposits, prepayments and other receivables	16	19,386	19,237
Other financial assets	13	144,734	—
Restricted bank deposits	17	150,000	—
Cash and cash equivalents	17	1,268,250	1,784,648
		1,675,818	1,845,611
Current liabilities			
Trade and other payables	18	42,029	48,538
Contract liabilities	19	18,197	17,078
Lease liabilities	20	4,085	4,775
Current taxation		354	380
		64,665	70,771
Net current assets		1,611,153	1,774,840
Total assets less current liabilities		1,675,290	1,823,406

Consolidated Statement of Financial Position (continued)

As at 31 December 2022
(Expressed in RMB)

	Note	31 December 2022 RMB'000	31 December 2021 RMB'000
Non-current liabilities			
Lease liabilities	20	3,928	3,420
		3,928	3,420
Net assets			
		1,671,362	1,819,986
Capital and reserves			
Share capital	23(c)	103,568	101,248
Reserves		1,562,557	1,718,738
Total equity attributable to equity shareholders of the Company			
		1,666,125	1,819,986
Non-controlling interests			
		5,237	—
Total equity			
		1,671,362	1,819,986

Approved and authorised for issue by the board of directors on 23 March 2023.

Zhang Dalei
Director

Chen Yuzhong
Director

The notes on pages 122 to 178 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

(Expressed in RMB)

	Attributable to equity shareholders of the Company							Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000 (Note 23(c))	Share premium RMB'000 (Note 23(d)(ii))	Exchange reserve RMB'000 (Note 23(d)(iii))	Fair value reserve (non-recycling) RMB'000 (Note 23(d)(iv))	Other reserve RMB'000 (Note 23(d)(i))	Accumulated losses RMB'000	Total RMB'000		
At 1 January 2022	101,248	1,827,965	330	1,607	54,394	(165,558)	1,819,986	—	1,819,986
Changes in equity for 2022:									
Loss for the year	—	—	—	—	—	(180,003)	(180,003)	(2,737)	(182,740)
Other comprehensive income	—	—	343	(333)	—	—	10	—	10
Total comprehensive income	—	—	343	(333)	—	(180,003)	(179,993)	(2,737)	(182,730)
Contributions from shareholders (Note 23(c))	2,320	—	—	—	—	—	2,320	—	2,320
Acquisition of subsidiaries	—	—	—	—	—	—	—	7,974	7,974
Equity-settled share-based transactions	—	—	—	—	25,086	—	25,086	—	25,086
Others	—	—	—	—	(1,274)	—	(1,274)	—	(1,274)
	2,320	—	—	—	23,812	—	26,132	7,974	34,106
At 31 December 2022	103,568	1,827,965	673	1,274	78,206	(345,561)	1,666,125	5,237	1,671,362

	Attributable to equity shareholders of the Company							Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000 (Note 23(c))	Share premium RMB'000 (Note 23(d)(ii))	Exchange reserve RMB'000 (Note 23(d)(iii))	Fair value reserve (non-recycling) RMB'000 (Note 23(d)(iv))	Other reserve RMB'000 (Note 23(d)(i))	Accumulated losses RMB'000	Total RMB'000		
At 1 January 2021	75,000	330,345	275	1,607	23,909	(22,924)	408,212	238	408,450
Changes in equity for 2021:									
Loss for the year	—	—	—	—	—	(142,634)	(142,634)	107	(142,527)
Other comprehensive income	—	—	55	—	—	—	55	—	55
Total comprehensive income	—	—	55	—	—	(142,634)	(142,579)	107	(142,472)
Shares issued upon initial public offering ("IPO") (Note 23(c)(ii))	22,267	1,262,802	—	—	—	—	1,285,069	—	1,285,069
Issuance of ordinary shares to pre-IPO investors (Note 23(c)(i))	3,981	234,818	—	—	—	—	238,799	—	238,799
Contributions from shareholders (Note 23(c))	—	—	—	—	23,598	—	23,598	—	23,598
Acquisition of non-controlling interests	—	—	—	—	345	—	345	(345)	—
Equity-settled share-based transactions	—	—	—	—	6,542	—	6,542	—	6,542
	26,248	1,497,620	—	—	30,485	—	1,554,353	(345)	1,554,008
At 31 December 2021	101,248	1,827,965	330	1,607	54,394	(165,558)	1,819,986	—	1,819,986

The notes on pages 122 to 178 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

(Expressed in RMB)

	Note	2022 RMB'000	2021 RMB'000
Operating activities			
Cash used in operations	17(b)	(380,417)	(112,091)
Tax paid		(26)	(2)
Net cash used in operating activities		(380,443)	(112,093)
Investing activities			
Payment for the purchase of property, plant and equipment		(9,302)	(28,013)
Proceeds from disposal of property, plant and equipment		204	13
Payment for purchase of intangible assets		(2,808)	—
Acquisition of subsidiaries, net of cash acquired		3,010	—
Redemption of other financial assets		2,052,112	1,511,994
Payment for the purchase of other financial assets		(2,197,643)	(1,506,000)
Net cash used in investing activities		(154,427)	(22,006)
Financing activities			
Proceeds from shares issued upon IPO		—	1,374,653
Issuance of ordinary shares to pre-IPO investors		—	237,016
Capital contributions received from share-based payment schemes		2,320	23,598
Interest element of lease rentals paid	17(c)	(439)	(298)
Capital element of lease rentals paid	17(c)	(7,031)	(4,583)
Listing expense paid	17(c)	(11,993)	(77,378)
Net cash (used in)/generated from financing activities		(17,143)	1,553,008
Net increase in cash and cash equivalents		(552,013)	1,418,909
Cash and cash equivalents at 1 January		1,784,648	374,698
Effect of foreign exchange rate changes		35,615	(8,959)
Cash and cash equivalents at 31 December	17(a)	1,268,250	1,784,648

The notes on 122 to 178 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

1 GENERAL INFORMATION

Beijing Airdoc Technology Co., Ltd. (北京鷹瞳科技發展股份有限公司 (the “**Company**”) was established as a limited liability company in the People’s Republic of China (the “**PRC**”) on 9 September 2015. The Company was converted from a limited liability company into a joint stock limited liability company on 28 December 2020. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 5 November 2021.

The Company and its subsidiaries (together, “**the Group**”) are primarily focusing on providing AI-empowered retina-based early detection, diagnosis and health risk assessment solutions.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (the “**IASB**”). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group. None of these developments have had a material impact to the financial statements of the Group. The Group has not applied any new amendments that are not yet effective for the current accounting period.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2022 comprise the Company and its subsidiaries, and the Group’s interest in a joint venture.

As almost all the Group’s operating activities are carried out in mainland China, and most of the transactions are denominated in RMB, the consolidated financial statements are presented in RMB.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that other financial assets are stated at their fair value as explained in the accounting policies in Note 2(e).

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group (see Note 2(c)(ii)). In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Group has an option to apply a “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see Note 2(i)(ii)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(ii) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(n) or (o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(e)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(i)(ii)) unless it is classified as held for sale.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (See Note 2(i)(ii)).

On disposal of a cash generating unit during the periods, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Other investments

The Group's policies for investments, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 24(e). These investments are subsequently accounted for as follows, depending on their classification.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Other investments (continued)

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(s)(v)).
- fair value through other comprehensive income (FVOCI) — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in Note 2(s)(iv).

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment

Property, plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see Note 2(g)), are stated at cost less accumulated depreciation and any impairment losses (see Note 2(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

	<i>Useful life</i>
– Hardware devices	3 years
– Furniture and others	3–5 years
– Leasehold improvement	Shorter of the unexpired lease term and 2–3 years
– Right-of-use assets	Over the lease term

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 2(i)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Leased assets (continued)

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract (“**lease modification**”) that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16 Leases. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period which the event or condition that triggers the rent concessions occurred.

(h) Intangible assets (other than goodwill)

Expenditure on research activities is recognised in profit or loss as incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(i)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(i)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets’ estimated useful lives. The useful lives of copyrights, trademark and technology and software were estimated by management based on the respective periods over which such assets can bring economic benefits to the Group. The estimation of the useful lives has taken into account the patent protection period, the historical life and characteristics of similar assets, the iteration cycle of live streaming and social networking technologies, update frequency and market competition, and the useful lives adopted by comparable companies in the market. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Licences and technology	10 years
Software	10 years

Both the period and method of amortisation are reviewed annually.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses (“ECLs”) on financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, which are held for the collection of contractual cash flows which represent solely payments of principal and interest).

Other financial assets measured at fair value, including non-equity investments measured at FVPL and equity securities designated at FVOCI (non-recycling), are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Measurement of ECLs (continued)

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Significant increases in credit risk (continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(s)(v) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment, including right-of-use assets;
- intangible assets;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out (FIFO) cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see Note 2(j)(i)) or property, plant and equipment (see Note 2(f)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. The incremental costs of obtaining a contract are expensed when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less, using the practical expedient in paragraph 94 of IFRS 15.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(s)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(i)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(m)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2(s)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(m)).

For a single contract with the customer, either a net contract asset or a contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(s)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in Note 2(i)(i).

(m) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(k)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost, using the effective interest method and including an allowance for credit losses (see Note 2(i)(i)).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(u)).

(p) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of equity-settled share-based payment awards granted to employees is recognised as an employee cost with a corresponding increase in other reserve within equity. The fair value is measured at grant date, taking into account the terms and conditions upon which the equity-settled share-based payment awards were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the equity-settled share-based payment awards, the total estimated fair value of the equity-settled share-based payment awards is spread over the vesting period, taking into account the probability that the equity-settled share-based payment awards will vest.

During the vesting period, the number of equity-settled share-based payment awards that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the other reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of equity-settled share-based payment awards that vest (with a corresponding adjustment to the other reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the other reserve.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions, contingent liabilities and onerous contracts

(i) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Provision of artificial intelligence (AI)-based software solutions

The Group earns revenue by provision of AI-based software solutions to its customers through contracts. Revenue is recognised at a point in time when performance obligation is completed and the Group has a present right to collect payment for the services performed.

The Group's revenue is mainly generated from subscription contracts under which a customer either pays a fee for a predetermined or an unlimited number of transactions during the subscription period or pays a fixed fee for each transaction during the subscription period. Revenue from the subscription contracts with a predetermined number of transactions or a fixed fee for each transaction is recognised when the services are provided, using the unit price agreed in the contract multiplied by the number of transactions provided. Revenue from the subscription contracts with an unlimited number of transactions is recognised on a straight-line basis during the subscription period.

(ii) Sale of hardware devices

Revenue is recognised when the customer takes possession of and accepts the products.

If a contract has several performance obligations covering goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue and other income (continued)

(iii) Other service

Other service revenues mainly include commissions from procurement service and software development service. Commissions from procurement service is recorded on a net basis which the Group earns in exchange for arranging for the specified goods to be provided by other parties. Revenue related to such commissions is recognised upon a time when the Group satisfies its performance obligations by rendering services.

The Group provides software development service according to the customer's customisation requirements. Revenue from software development service is recognised at a point in time when the software development is completed and transferred to customers.

(iv) Dividends

Dividends income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividends income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(i)(i)).

(vi) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities.

The results of operations which have a functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(v) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties (continued)

- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various service lines and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The Company derives revenue principally from the provision of AI-based software solutions, sales of hardware devices and other services.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers within the scope of IFRS 15 by customer type, product type, geographical location of customers and timing of recognition is as follows:

	2022 RMB'000	2021 RMB'000
Disaggregated by customer type		
Medical institutions (Airdoc Medical)	28,190	27,881
Consumer healthcare environments (Airdoc Health)	41,844	62,325
Eye health management settings (Airdoc Eye Health)	43,623	24,975
	113,657	115,181
Disaggregated by major product type		
Provision of AI-based software solutions	74,048	96,944
Sales of hardware devices	38,462	16,387
Other services	1,147	1,850
	113,657	115,181
Disaggregated by geographical location of customers		
Mainland China	112,104	114,299
Others	1,553	882
	113,657	115,181
Disaggregated by timing of revenue recognition		
— Point in time	77,510	55,881
— Over time	36,147	59,300
	113,657	115,181

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (continued)

(a) Revenue (continued)

(i) Disaggregation of revenue (continued)

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the year is set out below:

	2022 RMB'000	2021 RMB'000
Customer A	20,306	27,798
Customer B	36,549	17,995
Customer C	*	14,231

* Less than 10% of the Group's revenue in the respective year.

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied was RMB19,774,000 as at 31 December 2022 (31 December 2021: RMB26,213,000). Management of the Group expects the majority of the transaction price allocated to the unsatisfied contracts will be recognised within 3 years from the end of year.

(b) Segment reporting

IFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment during the years ended 31 December 2022 and 2021.

5 OTHER NET INCOME

	2022 RMB'000	2021 RMB'000
Interest income from bank deposits	9,142	2,023
Government grants	7,047	2,903
Change in fair value of other financial assets	16,248	5,994
Net foreign exchange difference	58,561	(9,416)
Losses from forward exchange contracts	(22,188)	—
Net loss on disposal of property and equipment	(1,290)	(56)
	67,520	1,448

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities (Note 17(c))	439	298

(b) Staff costs

	2022 RMB'000	2021 RMB'000
Salaries, wages and other benefits	177,856	115,624
Defined contribution retirement plans	13,021	7,346
Equity-settled share-based payment (Note 22)	25,086	6,542
	215,963	129,512

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates in 16% (2021: 15% to 16%) of the salaries, bonuses and certain allowances of the employees. Contributions to the retirement plan vest immediately, there is no forfeited contributions that may be used by the Group to reduce the existing level of contribution.

(c) Other items

	2022 RMB'000	2021 RMB'000
Depreciation charge		
— property, plant and equipment (Note 11)	22,534	15,498
Expected credit losses/(reversal of expected credit losses)		
— trade receivables	5,440	784
— other receivables	11	(160)
— pledge of assets (Note 17(a))	2,990	—
Auditor's remuneration		
— audit service	3,200	1,950
Listing expense	—	10,333
Cost of inventories sold (Note 14(b))	27,719	13,415

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represent:

	2022 RMB'000	2021 RMB'000
Current tax – PRC Enterprise Income Tax (“EIT”)		
Provision for the year	—	—

(b) Reconciliation between income tax expense and accounting loss at applicable tax rates:

	2022 RMB'000	2021 RMB'000
Loss before taxation	(182,740)	(142,527)
Notional tax on loss before taxation, calculated at the applicable rates in the tax jurisdictions concerned (i)(iv)	(45,685)	(35,633)
Effect of preferential tax rate (ii)	21,122	17,024
Effect of additional deduction on research and development expenses (iii)	(16,297)	(7,490)
Tax effect of non-deductible expenses	7,345	2,085
Tax effect of unused tax losses not recognised	29,500	24,342
Tax effect of temporary differences not recognised	4,015	(328)
Actual tax expenses	—	—

(i) The PRC statutory income tax rate is 25% under the PRC Enterprise Income Tax Law. The group entities in the PRC are subject to PRC income tax at 25% unless otherwise specified.

(ii) According to the PRC Income Tax Law and its relevant regulations, entities that qualified as high-technology enterprise are entitled to a preferential income tax rate of 15%. The Company and Shanghai Airdoc Medical Technology Co., Ltd. were recognised as high-technology enterprises and are subject to income tax at 15% during the years ended 31 December 2022 and 2021.

According to the PRC income tax law and its relevant regulations, entities that qualified as small and low profit enterprise are entitled to a preferential income tax rate of 5% (for taxable income less than RMB1,000,000) or 10% (for taxable income range from RMB1,000,000 to RMB3,000,000). Certain subsidiaries of the Group were qualified as small and low profit enterprise and entitled preferential income tax rate for the years ended 31 December 2022 and 2021.

(iii) Effective from 1 January 2018 to 31 December 2023, an additional 75% of qualified research and development expenses incurred is allowed to be deducted from taxable income under the PRC Income Tax Law and its relevant regulations.

(iv) Taxation for subsidiaries in other tax jurisdictions is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' and supervisors' emoluments are as follows:

	Year ended 31 December 2022					Total RMB'000
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payment (Note vii) RMB'000	
Executive directors						
Mr. Zhang Dalei	—	476	—	54	—	530
Mr. Gao Fei (i)	—	1,255	—	58	—	1,313
Mr. Chen Hailong	—	926	30	58	—	1,014
Mr. Chen Yuzhong	—	1,072	32	63	2,380	3,547
Non-executive directors						
Ms. Wang Mi (ii)	—	—	—	—	—	—
Mr. Jiang Bo (ii)	—	—	—	—	—	—
Mr. Chen Xin (ii)	—	—	—	—	—	—
Independent non-executive directors						
Dr. Huang Yanlin	180	—	—	—	—	180
Dr. Wu Yangfeng	180	—	—	—	—	180
Mr. Ng Kong Ping Albert (iv)	280	—	—	—	—	280
Supervisors						
Mr. Wei Yubo	—	916	20	58	—	994
Ms. Bai Huihui	—	—	—	—	—	—
Ms. Zhou Wenjuan (v)	—	—	—	—	—	—
Ms. Luo Ting (iii)	100	—	—	—	—	100
	740	4,645	82	291	2,380	8,138

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

	Year ended 31 December 2021					Total RMB'000
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payment (Note vii) RMB'000	
Executive directors						
Mr. Zhang Dalei	—	408	—	53	—	461
Mr. Gao Fei (i)	—	859	3,000	53	—	3,912
Mr. Chen Hailong	—	834	46	53	—	933
Mr. Chen Yuzhong	—	1,056	—	57	—	1,113
Non-executive directors						
Ms. Wang Mi (ii)	—	—	—	—	—	—
Mr. Jiang Bo (ii)	—	—	—	—	—	—
Independent non-executive directors						
Dr. Huang Yanlin	180	—	—	—	—	180
Dr. Wu Yangfeng	180	—	—	—	—	180
Ms. Luo Ting (iii)	100	—	—	—	—	100
Mr. Ng Kong Ping Albert (iv)	210	—	—	—	—	210
Supervisors						
Mr. Wei Yubo	—	716	38	53	—	807
Ms. Bai Huihui	—	—	—	—	—	—
Ms. Zhou Wenjuan (v)	—	—	—	—	—	—
	670	3,873	3,084	269	—	7,896

Notes:

- (i) Mr. Gao Fei resigned as executive director of the Company on 13 January 2023.
- (ii) Mr. Jiang Bo resigned as a non-executive director with effect from 19 May 2022 and Mr. Chen Xin has been appointed as a non-executive director with effect from 19 May 2022. Ms. Wang Mi resigned as non-executive director of the Company on 13 January 2023.
- (iii) Ms. Luo Ting resigned as Independent non-executive director of the Company on 30 April 2021. Ms. Luo Ting has been appointed as a supervisor with effect from 19 May 2022.
- (iv) Mr. Ng Kong Ping Albert was appointed as independent non-executive director of the Company on 30 April 2021.
- (v) Ms. Zhou Wenjuan resigned as a supervisor of the Company on 17 March 2022.
- (vi) No emoluments were paid by the Company to the directors as an inducement to join or upon joining the Company or as compensation for loss of office during the year (2021: nil).
- (vii) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2(p)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments, one is director (2021: one) whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other four (2021: four) highest paid individuals are as follows:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and benefits in kind	5,834	3,645
Discretionary bonuses	23	1,002
Retirement scheme contributions	220	142
Equity-settled share-based payment (Note 22)	14,322	5,350
	20,399	10,139

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following bands:

	2022 Number of individuals	2021 Number of individuals
HKD2,500,000 to HKD3,000,000	—	3
HKD3,500,001 to HKD4,000,000	—	1
HKD5,000,001 to HKD5,500,000	2	—
HKD6,000,001 to HKD6,500,000	1	—
HKD6,500,001 to HKD7,000,000	1	—

10 LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to ordinary equity shareholders of the Company of RMB180,003,000 (2021: loss of RMB142,634,000) and the weighted average of 103,002,000 ordinary shares in issue during the year (2021: 80,932,000 shares), calculated as follows:

	2022 '000	2021 '000
Issued ordinary shares at 1 January	101,248	75,000
Effect of new ordinary shares issued	1,754	5,932
Weighted average number of ordinary shares at 31 December	103,002	80,932

Unvested restricted share units were not included in the calculation of diluted loss per share because their effect would have been anti-dilutive. Accordingly, diluted loss per share for the years ended 31 December 2022 and 2021 was the same as basic loss per share.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Hardware devices RMB'000	Furniture and others RMB'000	Leasehold improvement RMB'000	Right-of- use assets RMB'000	Total RMB'000
Cost:					
At 1 January 2021	29,494	1,589	307	2,038	33,428
Additions	22,408	3,908	1,698	12,259	40,273
Disposals	(663)	—	—	—	(663)
Reclassification to inventories	(3,034)	—	—	—	(3,034)
At 31 December 2021	48,205	5,497	2,005	14,297	70,004
Additions	3,622	3,267	2,399	9,299	18,587
Acquisition of subsidiaries	385	133	—	—	518
Disposals	(1,939)	—	(193)	(3,571)	(5,703)
Reclassification to inventories	(7,403)	—	—	—	(7,403)
At 31 December 2022	42,870	8,897	4,211	20,025	76,003
Accumulated depreciation:					
At 1 January 2021	7,985	365	307	1,524	10,181
Charge for the year	10,599	584	417	3,898	15,498
Written back on disposals	(240)	—	—	—	(240)
Reclassification to inventories	(394)	—	—	—	(394)
At 31 December 2021	17,950	949	724	5,422	25,045
Charge for the year	13,849	1,091	834	6,760	22,534
Written back on disposals	(909)	—	(37)	(1,075)	(2,021)
Reclassification to inventories	(2,631)	—	—	—	(2,631)
At 31 December 2022	28,259	2,040	1,521	11,107	42,927
Net book value:					
At 31 December 2022	14,611	6,857	2,690	8,918	33,076
At 31 December 2021	30,255	4,548	1,281	8,875	44,959

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Right-of-use assets

The right-of-use assets represented properties leased for owned use, carried at depreciated cost.

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2022 RMB'000	2021 RMB'000
Depreciation charge of right-of-use assets	6,760	3,898
Interest on lease liabilities (Note 17(c))	439	298
Expense relating to short-term leases (Note 17(d))	2,419	3,780

The Group leases office premises under leases expiring in no more than three years. Some leases include an option to renew the lease when all terms are renegotiated. None of the leases includes variable lease payments.

The total cash outflow for leases and the maturity analysis of lease liabilities are set out in Note 17(d) and Note 20, respectively.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

12 INTANGIBLE ASSETS

	Goodwill	Licences and technology	Software	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At 1 January 2021, 31 December 2021 and 1 January 2022	—	—	—	—
Acquisition through business combination	970	5,124	—	6,094
Additions	—	—	865	865
At 31 December 2022	970	5,124	865	6,959
Accumulated amortisation:				
At 1 January 2021, 31 December 2021 and 1 January 2022	—	—	—	—
Charge for the year	—	87	44	131
At 31 December 2022	—	87	44	131
Net book value:				
At 31 December 2022	970	5,037	821	6,828
At 31 December 2021	—	—	—	—

The amortisation of intangible assets is allocated to administrative expenses.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

13 OTHER FINANCIAL ASSETS

	31 December 2022 RMB'000	31 December 2021 RMB'000
Financial assets measured at amortised cost		
— Fund investment	35,593	—
Financial assets measured at FVPL		
— Fund investment	126,186	—
Financial assets measured at FVOCI		
— Unlisted equity securities designated at FVOCI (non-recycling)	3,274	3,607
	165,053	3,607
Classified as:		
Current assets	144,734	—
Non-current assets	20,319	3,607
	165,053	3,607

14 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	31 December 2022 RMB'000	31 December 2021 RMB'000
Raw materials	9,115	4,093
Devices held for sale	20,456	3,590
	29,571	7,683

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss are as follows:

	2022 RMB'000	2021 RMB'000
Carrying amount of inventories sold	27,719	13,415

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

15 TRADE RECEIVABLES

	31 December 2022 RMB'000	31 December 2021 RMB'000
Receivables from third parties	70,294	34,693
Receivables from related parties (Note 25(c))	113	440
Less: loss allowance	(6,530)	(1,090)
Trade receivables, net	63,877	34,043

All of the trade receivables are expected to be recovered within one year.

(a) Ageing analysis of trade receivables

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000
Within 6 months	55,842	33,174
6 to 12 months	6,875	869
Over 12 months	1,160	—
	63,877	34,043

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 24(a).

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(Expressed in RMB unless otherwise indicated)

16 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2022 RMB'000	31 December 2021 RMB'000
Deposits	877	2,051
Prepayments to suppliers	10,669	13,151
Prepayments as an agent (Note)	1,034	760
VAT recoverable	5,050	2,910
Others	1,932	530
Less: loss allowance	(176)	(165)
Deposits, prepayments and other receivables, net of loss allowance	19,386	19,237

Note: The Group entered into a number of contracts with its major customers to purchase specific hardware devices on behalf of such customers. As the Group acted as an agent in these transactions, the relevant payments made to suppliers by the Group are classified as prepayments as an agent and the amounts received by the Group are classified as receipt in advance as an agent.

Notes to the Consolidated Financial Statements

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17 CASH AND CASH EQUIVALENTS

(a) Cash at bank and on hand comprises:

	31 December 2022 RMB'000	31 December 2021 RMB'000
Cash at bank and on hand	1,418,250	1,784,648
Less: Restricted bank deposits	(150,000)	—
Cash and cash equivalents in the consolidated statement of financial position and cash flow statement	1,268,250	1,784,648

The restricted bank deposits of RMB150,000,000 was pledged to secure the bills of a third party. The Group does not obtain collateral from this third party.

(b) Reconciliation of loss before taxation to cash used in operations:

	Note	2022 RMB'000	2021 RMB'000
Loss before taxation		(182,740)	(142,527)
Adjustments for:			
Depreciation	6(c)	22,534	15,498
Amortisation of intangible assets		131	—
Change in fair value of other financial assets	5	(16,248)	(5,994)
Interest expense	6(a)	439	298
Net loss on disposal of property, plant and equipment	5	1,290	56
Equity-settled share-based payment expenses	6(b)	25,086	6,542
Impairment of trade receivables	6(c)	5,440	784
Impairment/(reversal of impairment) of other receivables	6(c)	11	(160)
Net foreign exchange difference		(35,271)	9,014
Changes in working capital:			
Increase in inventories		(17,101)	(1,484)
Increase in trade receivables		(35,274)	(15,282)
Decrease/(increase) in deposits, prepayments and other receivables		818	(7,980)
Increase in other non-current assets		(1,971)	—
Increase in trade and other payables		1,320	21,803
Increase in contract liabilities		1,119	9,746
Placement of restricted bank deposits		(150,000)	—
Decrease in deferred income		—	(2,405)
Cash used in operations		(380,417)	(112,091)

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

17 CASH AND CASH EQUIVALENTS (continued)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Note	Lease liabilities RMB'000 (Note 20)	Listing expense payable RMB'000	Total RMB'000
At 1 January 2022		8,195	12,206	20,401
Changes from financing cash flows:				
Capital element of lease rentals paid		(7,031)	—	(7,031)
Interest element of lease rentals paid		(439)	—	(439)
Listing expense paid		—	(11,993)	(11,993)
Total changes from financing cash flows		(7,470)	(11,993)	(19,463)
Other changes:				
Increase in lease liabilities from entering into new leases during the period		9,299	—	9,299
Interest expenses	6(a)	439	—	439
Decrease in lease liabilities from terminating a lease during the year		(2,450)	—	(2,450)
At 31 December 2022		8,013	213	8,226

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(Expressed in RMB unless otherwise indicated)

17 CASH AND CASH EQUIVALENTS (continued)

(c) Reconciliation of liabilities arising from financing activities (continued)

	Note	Lease liabilities RMB'000 (Note 20)	Listing expense payable RMB'000	Total RMB'000
At 1 January 2021		519	—	519
Changes from financing cash flows:				
Capital element of lease rentals paid		(4,583)	—	(4,583)
Interest element of lease rentals paid		(298)	—	(298)
Listing expense paid		—	(77,378)	(77,378)
Total changes from financing cash flows		(4,881)	(77,378)	(82,259)
Other changes:				
Increase in lease liabilities from entering into new leases during the period		12,259	—	12,259
Interest expenses	6(a)	298	—	298
Listing expense capitalised		—	89,584	89,584
At 31 December 2021		8,195	12,206	20,401

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

17 CASH AND CASH EQUIVALENTS (continued)

(d) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2022 RMB'000	2021 RMB'000
Within operating cash flows	2,419	3,780
Within financing cash flows	7,470	4,881
	9,889	8,661

All these amounts relate to the lease rentals paid.

18 TRADE AND OTHER PAYABLES

	31 December 2022 RMB'000	31 December 2021 RMB'000
Trade payables	6,625	5,711
Accrued payroll	10,891	14,843
Other payables and accrued charges:		
– receipt in advance as an agent (Note 16)	274	648
– listing expenses payable	1,381	14,798
– other taxes payable	7,036	4,850
– accrued expenses	9,654	7,683
– others	6,168	5
	42,029	48,538

All of the above balances classified as current liabilities are expected to be settled within one year.

At the end of the reporting period, the ageing analysis of trade payables presented based on the invoice date is as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000
Within 6 months	6,625	5,711

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

19 CONTRACT LIABILITIES

	31 December 2022 RMB'000	31 December 2021 RMB'000
Advanced receipts for provision of AI-based software solutions	18,197	16,616
Advanced receipts for other services	—	462
	18,197	17,078

Movements in contract liabilities

	31 December 2022 RMB'000	31 December 2021 RMB'000
Balance at 1 January	17,078	7,332
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(16,769)	(6,918)
Increase in contract liabilities as a result of receiving advance payments during the year	17,888	16,664
Balance at 31 December	18,197	17,078

As at 31 December 2022, the amount of billing in advance of performance to be recognised as income after more than one year is RMB5,618,000 (31 December 2021: RMB3,088,000).

20 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities as of the end of the reporting period:

	31 December 2022 RMB'000	31 December 2021 RMB'000
Within 1 year	4,085	4,775
After 1 year but within 2 years	3,536	3,420
After 2 year but within 5 years	392	—
	8,013	8,195

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

21 DEFERRED TAX

Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB529,495,000 (31 December 2021: RMB338,302,000) due to the unpredictability of future taxable profits. The unrecognised tax losses will be expired as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000
2026	1,069	1,069
2027	16,011	16,011
2028	36,086	36,086
2029	50,725	57,933
2030	59,055	62,695
2031	164,061	164,508
2032	202,488	—
	529,495	338,302

22 EQUITY SETTLED SHARE-BASED TRANSACTION

Restricted share unit (RSU) Scheme of the Company

During the year ended 31 December 2021, 2,319,588 restricted share units were granted to certain director and employees of the Group at a price of RMB13.87 per share unit. The RSUs granted on 1 November 2021 will be vested in tranches of 25% each at the end of the fourth month, the sixteenth month, the twenty-eighth month and fortieth month, respectively, from the date of grant upon the achievement of service period condition. The RSUs granted on 31 December 2021 are subject to a vesting scale in tranches of 25% each per annum from the date of grant upon the achievement of service period condition.

The number and movements of RSU are as follows:

	2022 Number of RSU	2021 Number of RSU
Outstanding at the beginning of the year	2,319,588	—
Granted during the year		
— Director	—	260,689
— Other employees	—	2,058,899
Forfeited during the year	(258,671)	—
Vested during the year	(470,229)	—
Outstanding at the end of the year	1,590,688	2,319,588

As at 31 December 2022, 1,590,688 shares of RSUs remained unvested. The grant date fair value of the RSU was determined based on the difference between the market share price at the grant date and the price of the RSU payable by the grantee of RMB13.87 per share unit. The weighted average grant date fair value of these RSUs issued on 1 November 2021 and 31 December 2021 is RMB61.73 and RMB31.40 per share unit respectively.

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23 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity during the year is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity are set out below:

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2022	101,248	1,827,965	54,049	(175,595)	1,807,667
Changes in equity for 2022:					
Loss for the year	—	—	—	(152,372)	(152,372)
Total comprehensive income	—	—	—	(152,372)	(152,372)
Contributions from a shareholder	2,320	—	—	—	2,320
Equity-settled share-based transactions	—	—	25,086	—	25,086
Others	—	—	(1,274)	—	(1,274)
	2,320	—	23,812	—	26,132
At 31 December 2022	103,568	1,827,965	77,861	(327,967)	1,681,427
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2021	75,000	330,345	23,909	(23,643)	405,611
Changes in equity for 2021:					
Loss for the year	—	—	—	(151,952)	(151,952)
Total comprehensive income	—	—	—	(151,952)	(151,952)
Issuance of ordinary shares (Note 23(c))	3,981	234,818	—	—	238,799
Shares issued upon initial public offering ("IPO") (Note 23(c))	22,267	1,262,802	—	—	1,285,069
Contributions from a shareholder	—	—	23,598	—	23,598
Equity-settled share-based transactions	—	—	6,542	—	6,542
	26,248	1,497,620	30,140	—	1,554,008
At 31 December 2021	101,248	1,827,965	54,049	(175,595)	1,807,667

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

23 CAPITAL AND RESERVES (continued)

(b) Dividends

The directors of the Company did not propose the payment of any dividend for the year (2021: nil).

(c) Share capital

	Number of ordinary shares '000	Amount RMB'000
Issued and fully paid:		
At 1 January 2021	75,000	75,000
Issuance of ordinary shares (Note (i))	3,981	3,981
Issuance of ordinary shares upon IPO (Note (ii))	22,267	22,267
At 31 December 2021 and 1 January 2022	101,248	101,248
Contributions from Suqian Zhongyou (Note (iii))	2,320	2,320
At 31 December 2022	103,568	103,568

Notes:

- (i) On 30 April 2021, the Company entered into an investment agreement with several independent investors (the “**Series D Investment**”), pursuant to which the investors made a total investment of US\$38,000,000 in the Company as consideration for subscription of 3,981,225 shares of the Company.
- (ii) On 5 November 2021, the Company issued 22,267,200 ordinary shares with a par value of RMB1.00 each, at a price of HK\$75.1 per share upon the listing of the shares on the HK Stock Exchange. The proceeds of RMB22,267,200, representing the par value, were credited to the Company’s share capital. The remaining proceeds of RMB1,285,069,000 (net of share issuance expenses of RMB89,584,000), were credited to the share premium account.
- (iii) Suqian Zhongyou subscribed for approximately 2.85% of the registered capital of the Company in Series D investment, which will be paid up when the partnership interest in Suqian Zhongyou are subscribed for by the employees to be incentivized. Suqian Zhongyou paid up the investment in 2022.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

23 CAPITAL AND RESERVES (continued)

(d) Nature and purpose of reserves

(i) Other reserve

Other reserve mainly represents the share premium contributed by the shareholders of the Company before its conversion into a joint stock company in December 2021, grant date fair value of share options and RSUs granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(p)(ii), contributions from shareholders, and the difference between the considerations of acquisition of equity interests from non-controlling equity owners and the carrying amount of the proportionate net assets.

(ii) Share premium

The share premium represents the premium contributed by the shareholders of the Company after its conversion into a joint stock company in December 2021, and proceeds in excess of par value received from the issuance of the shares of the Company.

(iii) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations that have functional currency other than the RMB.

(iv) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see Note 2(e)).

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(Expressed in RMB unless otherwise indicated)

23 CAPITAL AND RESERVES (continued)

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. The Group's overall strategy remained unchanged during the year.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes lease liabilities) less cash and cash equivalents. Capital comprises all components of equity.

As at 31 December 2021 and 2022, the Group's adjusted net debt-to-capital ratio was as follows:

	Note	31 December 2022 RMB'000	31 December 2021 RMB'000
Current liabilities:			
Lease liabilities	20	4,085	4,775
Non-current liabilities:			
Lease liabilities	20	3,928	3,420
Total debt		8,013	8,195
Less: Cash and cash equivalents	17(a)	(1,268,250)	(1,784,648)
Adjusted net debt		(1,260,237)	(1,776,453)
Capital		1,671,362	1,819,986
Adjusted net debt-to-capital ratio		N/A	N/A

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24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's exposure to credit risk arising from other receivables is limited. Credit risk arising from cash and cash equivalents is also limited because the counterparties are state-owned banks or reputable commercial banks for which the Group considers to have low credit risk. The Group's credit risk is primarily attributable to trade receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Except for the pledge of assets given by the Group as set out in Note 17(a), the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of this pledge at 31 December 2022 is RMB150,000,000.

(i) Trade receivables

The Group's exposure to credit risk arising from trade receivables is influenced mainly by the individual characteristics of each customer. The default risk of the industry or country in which the customers operate also has an influence on credit risk. As at 31 December 2022 77% (31 December 2021: 64%) of the total trade receivables was due from the Group's top five customers. Trade receivables are generally due within 60 to 120 days from the date of billing.

The Group measures loss allowances for trade receivables at lifetime ECL. The Group determines ECL by using a provision matrix, estimated based on historical credit loss experience, the past default experience of the debtor, general economic conditions of the industry and country in which the debtors operates and an assessment of both the current and the forecast duration of condition as of the end of each reporting period. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

(i) Trade receivables (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	31 December 2022		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.35%	53,964	(188)
1-180 days past due	6.00%	6,853	(411)
181-360 days past due	54.80%	8,096	(4,437)
Past due over 1 year	100.00%	1,494	(1,494)
		70,407	(6,530)

	31 December 2021		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	1.00%	33,408	(334)
1-180 days past due	8.50%	907	(77)
181-360 days past due	76.00%	579	(440)
Past due over 1 year	100.00%	239	(239)
		35,133	(1,090)

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2022 RMB'000	2021 RMB'000
Balance at 1 January	1,090	306
Impairment loss recognised during the year	5,440	784
At 31 December	6,530	1,090

(ii) Other financial assets

The Group is exposed to credit risk arising from investment in various investment products. Subsequent to the end of the reporting period, the Group has disputes with the fund manager in one of the investments with a carrying value of RMB35 million as at 31 December 2022.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	As at 31 December 2022				Total RMB'000	Carrying amount RMB'000
	Contractual undiscounted cash outflow	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000		
	Within 1 year or on demand RMB'000					
Trade and other payables measured at amortised costs (Note 18)	42,029	—	—	—	42,029	42,029
Lease liabilities (Note 20)	4,364	3,632	394	—	8,390	8,013
	46,393	3,632	394	—	50,419	50,042

	As at 31 December 2021				Total RMB'000	Carrying amount RMB'000
	Contractual undiscounted cash outflow	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000		
	Within 1 year or on demand RMB'000					
Trade and other payables measured at amortised costs (Note 18)	48,538	—	—	—	48,538	48,538
Lease liabilities (Note 20)	5,471	3,117	—	—	8,588	8,195
	54,009	3,117	—	—	57,126	56,733

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group and the Company are primarily exposed to fair value interest rate risk in relation to lease liabilities, financial instruments issued to investors and cash flow risk in relation to variable-rate bank balances. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Company considers that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant because the current market interest rates are relatively low and stable.

(d) Currency risk

The group is exposed to currency risk primarily through IPO which give rise to cash balance that are denominated in a foreign currency. The currencies giving rise to this risk are primarily Hong Kong dollars (“HKD”) and United States dollars (“USD”).

(i) Exposure to currency risk

The following table details the Group’s exposure as at the end of reporting period to currency risk arising from recognised assets denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year/period end date.

	As at 31 December			
	2022		2021	
	USD RMB'000	HKD RMB'000	USD RMB'000	HKD RMB'000
Cash and cash equivalents	358,504	56,038	224,055	1,311,380

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(Expressed in RMB unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss after tax (and accumulated losses) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	As at 31 December 2022		As at 31 December 2021	
	Increase/(decrease) in foreign exchange rates	Decrease/(increase) in loss after tax and accumulated losses RMB'000	Increase/(decrease) in foreign exchange rates	Decrease/(increase) in loss after tax and accumulated losses RMB'000
USD	5%	17,925	5%	11,203
	(5%)	(17,925)	(5%)	(11,203)
HKD	5%	2,802	5%	65,569
	(5%)	(2,802)	(5%)	(65,569)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

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(Expressed in RMB unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(e) Fair value measurement

Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

The following table presents the Group's assets that are measured at fair value:

	Fair value at	Fair value measurements as at		
	31 December	31 December 2022 categorised into		
	2022	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Financial assets:				
Unlisted equity securities	3,274	—	3,274	—
Other financial assets	161,779	—	—	161,779
	Fair value at	Fair value measurements as at		
	31 December	31 December 2021 categorised into		
	2021	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Financial assets:				
Unlisted equity securities	3,607	—	3,607	—

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(e) Fair value measurement (continued)

During the year, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

Other financial assets

The fair value of other financial assets is estimated directly with reference to the prices provided by the counterparty financial institutions using net asset method, where the significant unobservable inputs are the net assets. The relationship of unobservable inputs to fair value is positive correlation.

As at 31 December 2022 and 2021, it is estimated that with all other variables held constant, an increase/decrease in the fair values of other financial assets by 1% would have decreased/increased the Group's profit before taxation by RMB1.62 million and RMB0, respectively.

The movements of other financial assets, the measurement of which fall into Level 3 of the fair value hierarchy, during the year are as follows:

	2022 RMB'000	2021 RMB'000
At 1 January	—	—
Payment for purchase	2,197,643	1,506,000
Change in fair value	16,248	5,994
Proceeds from redemption	(2,052,112)	(1,511,994)
At 31 December	161,779	—

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

25 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the financial statements, the Group entered into the following significant related party transactions during the year:

(a) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Company's directors.

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8, and certain of the highest paid employees as disclosed in Note 9, is as follows:

	2022 RMB'000	2021 RMB'000
Short-term employee benefits	6,492	8,873
Post-employment benefits	348	320
Equity-settled share-based payment	2,380	267
	9,220	9,460

Total remuneration was included in "staff costs" (see Note 6(b)).

(b) Other significant transactions with related parties

The principal transactions which were carried out in the ordinary course of business are as follows:

	2022 RMB'000	2021 RMB'000
Provision of AI-based software solutions to a fellow subsidiary of a minority shareholder	2,579	10,749

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

25 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties as at the end of the reporting period

Details of the outstanding balances with related parties are as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000
Trade related balances due from a fellow subsidiary of a minority shareholder		
— Trade receivables	113	440
— Deposits, prepayments and other receivables	30	30

26 INVESTMENT IN SUBSIDIARIES

As at 31 December 2022, the Company has direct or indirect interests in the following principal subsidiaries:

Name of company	Place of incorporation and operation	Particulars of registered and paid-up capital	Proportion of ownership interest		Principal activities
			Directly held by the Company	Indirectly held by the Company	
Shanghai Airdoc Medical Technology Co., Ltd. (“Airdoc Shanghai”) (上海鷹瞳醫療科技有限公司) (i)	The PRC	RMB10,000,000 RMB5,700,000	100%	—	Sale of hardware devices and provision of AI-based software solutions
Beijing Airdoc Health Technology Co., Ltd. (“Airdoc Beijing”) (北京鷹瞳健康科技有限公司) (i)	The PRC	RMB1,000,000	—	100%	Sale of hardware devices and provision of AI-based software solutions
Shanghai Zhongyou Intelligent Technology Co., Ltd. (“Shanghai Zhongyou”) (上海眾佑智能科技有限公司) (i)	The PRC	RMB5,000,000 RMB1,100,000	100%	—	Sale of hardware devices and provision of AI-based software solutions
Airdoc Technology (HK) Limited (“Airdoc HK”)	Hong Kong	USD2,000,000 USD2,000,000	100%	—	Sale of hardware devices and provision of AI-based software solutions
Changsha Airdoc Health Technology Co., Ltd. (長沙鷹瞳健康科技有限公司) (i)	The PRC	RMB10,000,000	100%	—	Sale of hardware devices and provision of AI-based software solutions
Beijing Airdoc Intelligence Medical Technology Co., Ltd. (北京鷹瞳智慧醫療科技有限公司) (i)	The PRC	RMB10,000,000	100%	—	Sale of hardware devices and provision of AI-based software solutions
Beijing Airdoc Medical Technology Co., Ltd. (北京鷹瞳醫療科技有限公司) (i)	The PRC	RMB10,000,000	100%	—	Sale of hardware devices and provision of AI-based software solutions

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

26 INVESTMENT IN SUBSIDIARIES (continued)

- (i) All these subsidiaries are domestic limited liability companies.

All companies comprising the Group have adopted 31 December as their financial year end date.

27 BUSINESS COMBINATION

In 2022, the Group acquired 70% equity interest of Xunyin Intelligent Technology (Shanghai) Co., Ltd (“**Xunyin Technology**”) (循音智慧科技(上海)有限公司), which is principally engaged in development of artificial intelligence technology related to children’s heart sounds at a consideration of RMB3,500,000.

The acquiree did not contribute any revenue to the Group and contributed loss of RMB392,000 to the Group’s results from the date of acquisition to 31 December 2022. If the acquisition had occurred on 1 January 2022, management estimates that the consolidated revenue would have been RMB113,746,000 and consolidated loss would have been RMB192,530,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2022.

(i) Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the respective dates of acquisition.

	RMB’000
Property, plant and equipment	33
Intangible assets	5,124
Inventories	16
Deposits, prepayments and other receivables	934
Cash and cash equivalent	115
Contract liabilities	(943)
Trade and other payables	(1,665)
Total identifiable net assets acquired	3,614

(ii) Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuation technique
Intangible assets	Discounted cash flows: The valuation model considers the present value of the expected future payments, discounted using a risk-adjusted discount rate.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

27 BUSINESS COMBINATION (continued)

(iii) Goodwill

Goodwill arising from the acquisition has been recognised as follows.

	RMB'000
Consideration transferred	3,500
Non-controlling interest, based on their proportionate interest in the recognised amounts of the assets and liabilities	1,084
Fair value of identifiable net assets	(3,614)
Goodwill	970

The goodwill is attributable mainly to the skills and technical talent of the acquirees and the synergies expected to be achieved. None of the goodwill recognised is expected to be deductible for tax purposes.

(iv) Acquisition-related costs

The Group incurred acquisition-related costs of RMB53,000 on legal and professional fee. These costs have been included in administration expense.

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

28 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	31 December 2022 RMB'000	31 December 2021 RMB'000
Non-current assets			
Property, plant and equipment		6,607	11,044
Investment in subsidiaries	26	41,306	27,011
Other financial assets		17,045	—
Other non-current assets		2,926	—
		67,884	38,055
Current assets			
Trade receivables		62,198	33,774
Deposits, prepayments and other receivables		11,822	8,806
Amounts from subsidiaries		498,854	192,047
Cash and cash equivalents		1,085,106	1,590,876
		1,657,980	1,825,503
Current liabilities			
Trade and other payables		44,156	52,289
Contract liabilities		281	266
Lease liabilities		—	3,047
		44,437	55,602
Net current assets		1,613,543	1,769,901
Total assets less current liabilities		1,681,427	1,807,956
Non-current liabilities			
Lease liabilities		—	289
		—	289
Net assets		1,681,427	1,807,667
Capital and reserves			
Share capital	23	103,568	101,248
Reserves	23	1,577,859	1,706,419
Total equity		1,681,427	1,807,667

Notes to the Consolidated Financial Statements

(Expressed in RMB unless otherwise indicated)

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR

Up to the date of issue of this report, the IASB has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 17, <i>Insurance Contracts and amendments to IFRS 17, Insurance Contracts</i>	1 January 2023
Amendments to IAS 1, <i>Classification of Liabilities as Current or Non-current</i>	1 January 2024
Amendments to IAS 1 and IFRS Practice Statement 2, <i>Disclosure of Accounting Policies</i>	1 January 2023
Amendments to IAS 8, <i>Definition of Accounting Estimates</i>	1 January 2023
Amendments to IAS 12, <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023
Amendments to IFRS 10 and IAS 28, <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	To be determined*

* The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

30 SUBSEQUENT EVENT

On 24 January 2023, Airdoc HK entered into an agreement to subscribe for limited partnership interests in a partnership and committed to contribute US\$14.5 million to the partnership. The partnership primarily focuses on investing in overseas companies in medicine and health, science and technology industries.

Definitions and Glossary of Technical Terms

“2022 Equity Incentive Scheme”, “Incentive Scheme” or “Scheme”	the 2022 H Share equity incentive scheme to be adopted by the Company
“AI”	artificial intelligence
“Airdoc”, “Group”, “we” or “us”	our Company and all of our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
“Airdoc Guangzhou”	Guangzhou Airdoc Medical Technology Co., Ltd.* (廣州鷹瞳醫療科技有限公司), a company established in the PRC with limited liability on August 22, 2017 and a wholly-owned subsidiary of our Company
“Airdoc HK”	Airdoc Technology (HK) Limited, a company incorporated in Hong Kong with limited liability on February 26, 2020 and a wholly-owned subsidiary of our Company
“Airdoc Universe”	Beijing Airdoc Universe Technology Center L.P.* (北京鬱金香宇宙科技中心(有限合夥)), a limited partnership established in the PRC on February 22, 2016 and an employee incentive platform of our Group
“Articles of Association”	the articles of association of the Company adopted on May 12, 2021 and amended on November 10, 2022
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Board of Supervisors”	the board of supervisors of the Company
“Board” or “Board of Directors”	the board of directors of our Company

Definitions and Glossary of Technical Terms

“CDR”	cup to disc ratio, a measurement used in ophthalmology and optometry to assess the progression of glaucoma
“CG Code” or “Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“China” or “the PRC”	the People’s Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau Special Administrative Region and Taiwan
“Class III medical device”	medical devices with relatively high risks, which shall be strictly controlled and administered through special measures to ensure their safety and effectiveness under the Regulation on the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》)
“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Company”, “our Company” or “the Company”	Beijing Airdoc Technology Co., Ltd. (北京鷹瞳科技發展股份有限公司), a joint stock company incorporated in the PRC with limited liability on September 9, 2015
“Company Law”	the Company Law of the PRC, as amended and supplemented from time to time
“Concert Party Agreement”	the agreement entered into between Mr. Zhang, Mr. Chen and Mr. Gao on October 14, 2016, pursuant to which Mr. Chen and Mr. Gao have undertaken to, among other things, vote unanimously with Mr. Zhang for any resolutions proposed at any Board and Shareholders’ meetings of our Company
“connected transaction”	has the meaning ascribed thereto under the Listing Rules
“Core Product(s)”	has the meaning ascribed to it in Chapter 18A of the Listing Rules; for the purpose of this annual report, our Core Product refers to our Airdoc-AIFUNDUS
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
“Director(s)”	the director(s) of our Company, including all executive, non-executive and independent non-executive directors

Definitions and Glossary of Technical Terms

“Domestic Share(s)”	ordinary shares in the share capital of our Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB by domestic investors
“EU”	European Union
“Grant Price”	the price to be paid by the Participants for obtaining the Incentives as determined by the Board or its authorized persons from time to time during the Scheme Period after the Scheme is approved by the Shareholders on March 30, 2023
“Greater China”	PRC, Hong Kong, Macau and Taiwan
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are to be listed on the Stock Exchange and traded in Hong Kong dollars
“H Share Full Circulation”	the application proposed by the Company for the partial conversion of Unlisted Shares into H Shares and the listing and circulation of such Shares on the Main Board of the Stock Exchange
“ICVD”	ischemic cardiovascular disease, including myocardial infarction and cerebral infarction
“Incentive(s)”	incentive(s) granted by the Board to the Participants and vested by way of Incentive Shares under the Scheme Rules by the Board
“Incentive Shares”	H Shares underlying the Incentives to be granted to Participants
“Listing” or “IPO”	the listing of our Shares on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules

Definitions and Glossary of Technical Terms

“Mr. Chen”	Mr. Chen Mingqiang (陳明強), one of our co-founders and a member of the single largest group of Shareholders
“Mr. Gao”	Mr. Gao Fei (高斐), one of our co-founders, an executive Director and a member of the single largest group of Shareholders
“Mr. Zhang”	Mr. Zhang Dalei (張大磊), our founder, the chairman of the Board, an executive Director and a member of the single largest group of Shareholders
“NASDAQ”	the Nasdaq Stock Market
“NMPA”	the National Medical Products Administration of China (國家藥品監督管理局) or, where the context so requires, its predecessor, the China Food and Drug Administration (國家食品藥品監督管理總局), or CFDA
“Nomination Committee”	the nomination committee of the Board
“OEM”	acronym for original equipment manufacturer, a business that manufactures goods or equipment for branding and release by others
“Participant(s)”	selected participants in the 2022 Equity Incentive Scheme
“Ping An Healthtech”	Ping An Healthtech Co., Ltd. (平安醫療科技有限公司), a company established in the PRC with limited liability on September 28, 2017
“pricing guidance”	a guidance issued by governmental authorities, which is a pre-requisite for the public hospitals to set specific charging items for medical service and charge patients accordingly
“Prospectus”	the prospectus issued by the Company dated October 26, 2021
“R&D”	Research and Development
“Remuneration and Appraisal Committee”	the remuneration and appraisal committee of the Board
“Reporting Period”	the year ended December 31, 2022

Definitions and Glossary of Technical Terms

“RMB”	Renminbi Yuan, the lawful currency of China
“SaMD(s)”	Software as a Medical Device, a class of medical software designed to carry out one or more medical functions without the need for actual hardware
“Securities Law”	the Securities Law of the PRC, as amended and supplemented from time to time
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share(s)”	shares in the share capital of our Company, with a nominal value of RMB1.00 each, comprising Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategy Committee”	the strategy committee of the Board
“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Supervisor(s)”	supervisor(s) of our Company
“Suqian Airdoc”	Suqian Airdoc Technology Center (Limited Partnership)* (宿遷鷹瞳科技中心(有限合夥)), a limited partnership established in the PRC on October 13, 2020 and an employee incentive platform of our Group
“Suqian Zhongyou”	Suqian Zhongyou Technology Center (Limited Partnership)* (宿遷眾佑科技中心(有限合夥)), a limited partnership established in the PRC on November 10, 2020 and an employee incentive platform of our Group
“United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“Unlisted Share(s)”	domestic share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is(are) subscribed for and paid up in Renminbi by domestic investors and currently not listed on any stock exchange

Definitions and Glossary of Technical Terms

“US\$”	United States dollars, the lawful currency of the United States
“Yadong Beichen”	Yadong Beichen Venture Investment Co., Ltd.* (亞東北辰創業投資有限公司), previously known as Yadong Beichen Investment Management Co., Ltd.* (亞東北辰投資管理有限公司), a company established in the PRC with limited liability on August 2, 2013

For the purpose of this annual report, references to “provinces” of China include provinces, municipalities under direct administration of the central government and provincial-level, autonomous regions.